

# NEW APPLICATION ORIGINAL



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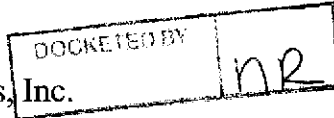
ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

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Arizona Corporation Commission

DOCKETED

JUN -3 2009



## BEFORE THE ARIZONA CORPORATION COMMISSION

SW-04305A-09-0291

IN THE MATTER OF THE APPLICATION  
OF CORONADO UTILITIES, INC. FOR A  
DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN  
ITS RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: SW-04305A-09-\_\_\_\_\_

## APPLICATION

Coronado Utilities, Inc., an Arizona public service corporation ("Coronado" or "the Company"), hereby applies for an order establishing the fair value of its plant and property used for the provision of public wastewater utility service and, based on such finding, approving permanent rates and charges for utility service designed to produce a fair return thereon. In support thereof, Coronado states as follows:

1. Coronado is a public service corporation engaged in providing wastewater utility service in portions of Pinal County, Arizona, pursuant to certificates of convenience and necessity granted by the Arizona Corporation Commission in Decision No. 68608 (March 23, 2006) ("CC&N Decision"). During the Test Year, Coronado served approximately 1300 sewer utility service connections.

2. Coronado's business address is 6825 E. Tennessee Avenue, Suite 547, Denver, CO 80224, and its telephone number is (303) 333-1250. Coronado's President and principal management contact is Jason Williamson.

3. The persons responsible for overseeing and directing the conduct of this rate

1 application are Jason Williamson and the Company's rate case consultant, Mr. Thomas  
2 Bourassa. Mr. Williamson's mailing address is 6825 E. Tennessee Avenue, Suite 547,  
3 Denver, CO 80224, and his telephone number is (303) 333-1250; his telecopier number is  
4 (303) 333-1257; and his email address is jw@pivotalcompanies.com. Mr. Bourassa's  
5 mailing address is 139 W. Wood Drive, Phoenix, Arizona 85029, his telephone number is  
6 (602) 246-7150; his telecopier number is (602) 246-1040, and his e-mail address is  
7 tjb114@cox.net. All discovery, data requests and other requests for information  
8 concerning this Application should be directed to Mr. Williamson, including copies by  
9 e-mail, as well as to Mr. Bourassa, with a copy to undersigned counsel for the Company,  
10 including by e-mail to jshapiro@fclaw.com and wbirk@fclaw.com.

11 4. The Company's present rates and charges for utility service were approved  
12 by the Commission in Decision No. 68608 (March 23, 2006), the decision granting the  
13 Company a CC&N.

14 5. Coronado maintains that revenues from its utility operations are presently  
15 inadequate to provide the Company a fair rate of return on the fair value of its utility plant  
16 and property devoted to public sewer utility service. Operating expenses have also  
17 increased. These changes since the Company's initial rates were set in its CC&N  
18 proceeding (which were based upon estimates) have caused the revenues produced by the  
19 current rates and charges for sewer utility service to become inadequate to meet operating  
20 expenses and provide a reasonable rate of return for the Company. Therefore, the  
21 Company requests that certain adjustments to its rates and charges for utility service be  
22 approved by the Commission so that the Company may recover its operating expenses and  
23 be given an opportunity to earn a just and reasonable rate of return on the fair value of its  
24 property. The Company agrees to use its original cost rate base as its fair value rate base  
25 in this proceeding to minimize disputes and reduce rate case expense.

26 6. Filed concurrently herewith are the schedules required pursuant to A.A.C.

1 R14-2-103 for rate applications by Class "B" utilities. The test year utilized by the  
2 Company in connection with the preparation of such schedules is the 12-month period that  
3 ended December 31, 2008. Coronado requests that the Commission utilize such test year  
4 in connection with this Application, with appropriate adjustments to obtain a normal or  
5 more realistic relationship between revenues, expenses and rate base during the period in  
6 which the rates established in this proceeding are in effect.

7 7. During the test year, the Company's adjusted gross revenues were \$883,530  
8 from wastewater utility service. The adjusted operating income was \$154,497, leading to  
9 an operating income deficiency of \$105,800. The adjusted fair value rate base was  
10 \$3,536,648. Thus, the rate of return on the Company's operations during the test year was  
11 4.37 percent.

12 8. The Company submits that the overall rate of return to the Company is too  
13 low to allow it to pay reasonable dividends, maintain a sound credit rating, and/or enable  
14 Coronado to attract additional capital on reasonable and acceptable terms in order to  
15 continue the investment in utility plant necessary to adequately serve customers.

16 9. The Company is requesting an increase in wastewater utility revenues equal  
17 to \$156,498, an increase in revenues of 17.71 percent. The adjustments to the Company's  
18 rates and charges that are proposed herein, when fully implemented, will produce a rate of  
19 return on the fair value rate base equal to 7.36 percent from wastewater operations.

20 10. Filed concurrently in support of this Application is the Direct Testimony of  
21 Jason Williamson, providing an overview of Coronado and its operations and discussing  
22 the Company's improvements and other changes since the current rates were set. Mr.  
23 Williamson also discusses changes to the Company's tariffs, including the addition of a  
24 low income tariff. Coronado's proposed tariff of rates and charges is attached to this  
25 application as Attachment 1. Also filed is the Direct Testimony of Thomas Bourassa, in  
26 two separate volumes (rate base/income statement/rate design and cost of capital).

1 Attached to Mr. Bourassa's testimonies are the schedules required pursuant to A.A.C.  
2 R14-2-103 for rate applications by Class "B" utilities, with the exception of the schedules  
3 labeled "G" (cost of service analysis). "G" Schedules are omitted because Coronado is  
4 not proposing a change to its basic rate design and a cost of service study is not warranted.

5 11. Attached hereto as Attachment 2 are wastewater plant descriptions and  
6 wastewater flows for the test year.

7 12. Attached hereto as Attachment 3 is a compliance status report from Arizona  
8 Department of Environmental Quality ("ADEQ") which shows that the Company is in  
9 compliance with its ADEQ Aquifer Protection Permit.

10 WHEREFORE, Coronado requests the following relief:

11 A. That the Commission, upon proper notice and at the earliest possible time,  
12 conduct a hearing in accordance with A.R.S. § 40-251 and determine the fair value of  
13 Coronado's wastewater plants and property devoted to providing wastewater utility  
14 service;

15 B. Based upon such determination, that the Commission approve permanent  
16 adjustments to the rates and charges for wastewater utility service provided by Coronado,  
17 as proposed by the Company herein, or approve such other rates and charges as will  
18 produce a just and reasonable rate of return on the fair value of the Company's utility  
19 plant and property; and

20 C. That the Commission authorize such other and further relief as may be  
21 appropriate to ensure that Coronado has an opportunity to earn a just and reasonable  
22 return on the fair value of their utility plant and property and as may otherwise be required  
23 under Arizona law.

24 ...

25 ...

26 ...

1 RESPECTFULLY SUBMITTED this 3<sup>rd</sup> day of June, 2009.

2 FENNEMORE CRAIG, P.C.

3  
4 By 

5 Jay L. Shapiro

6 Stephanie Johnson

7 3003 North Central Avenue, Suite 2600

8 Phoenix, Arizona 85012

Attorneys for Coronado Utilities, Inc.

9 ORIGINAL and 15 copies of the foregoing  
10 filed this 3<sup>rd</sup> day of June, 2009 with:

11 Docket Control  
12 Arizona Corporation Commission  
13 1200 West Washington Street  
Phoenix, Arizona 85007

14 COPY of the foregoing hand-delivered  
15 this 3<sup>rd</sup> day of June, 2009 to:

16 Compliance Section  
17 Arizona Corporation Commission  
18 1200 West Washington Street  
Phoenix, Arizona 85007

19  
20 By 

21 2187985.3/12923.003

# **ATTACHMENT 1**

**CORONADO UTILITIES, INC.**  
**TARIFF OF RATES AND CHARGES (PROPOSED 6/3/09)**  
6825 E. Tennessee Avenue, Suite 547      Denver, CO 80224      (303) 333-1250

**WASTEWATER RATES**

Monthly charges:	Rate
Residential Service .....	\$ 54.73
Commercial.....	\$ 8.83
Mobile Home Park (Winter only).....	\$ 8.83
Mobile Home Park (Summer only – per occupied space .....	\$ 37.50
School .....	\$ 8.83

**Volumetric Rates:**

Commercial per 100 gallons of water usage.....	\$ 1.1535
Mobile Home Park (Winter only) per 100 gallons of water usage .....	\$ 0.6709
School per 100 gallons of water usage .....	\$ 0.3675
Effluent or Reclaimed Water per 1,000 gallons.....	\$ 0.2000
Effluent or Reclaimed Water per acre foot .....	\$ 65.1700

**SERVICE LINE INSTALLATION CHARGES**

<u>Service Line Size</u>	<u>Charge</u>
4 inch .....	At Cost
6 inch .....	At Cost
8 inch .....	At Cost
10 inch .....	At Cost
12 inch .....	At Cost

**MISCELLANEOUS CHARGES**

Establishment of service .....	\$ 25.00
Reconnection Fee (Delinquent) .....	\$ 35.00 + cost*
NSF Check Charge .....	\$ 25.00
Late Payment (per month) ....	1.5% of unpaid balance
Deferred Payment Finance Charge (per month) .	1.5%
Service Calls (per hour, after hours)....	\$ 40.00
Main Extension Tariff.....	Cost
Low Income Tariff.....	See Sheet Nos. 11-15

**Billing Adjustments**

Total monthly water, sewer and miscellaneous charges are subject to adjustment for all federal, state, and local government taxes, levies, and any assessments that may be imposed by federal or state regulatory agencies on water and sewer gross revenues.

\* See Tariff, Part One, Section III.C

**Deposits**

Deposit interest will be paid at an annual rate of 3.5%.

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Jason Williamson, President  
6825 E. Tennessee Avenue, Suite 547  
Denver, CO 80224



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Applies to all WASTEWATER service areas

**PART ONE**  
**STATEMENT OF CHARGES**  
**WASTEWATER SERVICE**

**I. RATES**

In Opinion and Order No. \_\_\_\_\_, dated \_\_\_\_\_, the Commission approved the following rates and charges to become effective \_\_\_\_\_:

**MINIMUM MONTHLY CHARGE**

<u>Description</u>	<u>Rate</u> (per month)
Residential Service	\$ 54.73
Commercial	\$ 8.83
Mobile Home Park (Winter only)	\$ 8.83
Mobile Home Park (Summer only - per occupied space)	\$ 37.50
School	\$ 8.83

**VOLUMETRIC RATES**

<u>Description</u>	<u>Rate</u>
Commercial per 100 gallons of water usage	\$ 1.1535
Mobile Home Park (Winter only) per 100 gallons of water usage	\$ 0.6709
School per 100 gallons of water usage	\$ 0.3675
Effluent or Reclaimed Water per 1,000 gallons	\$ 0.2000
Effluent or Reclaimed Water per acre foot	\$ 65.1700

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**PART ONE**  
**STATEMENT OF CHARGES**  
**WASTEWATER SERVICE**

**I. RATES (cont.)**

## SERVICE LINE INSTALLATION CHARGES

<u>Service Line Size</u>	<u>Charge</u>
4 inch	At Cost <sup>1</sup>
6 inch	At Cost
8 inch	At Cost
10 inch	At Cost
12 inch	At Cost

---

<sup>1</sup> Cost includes parts, labor overhead, and all applicable taxes, including income tax.

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Applies to all **WASTEWATER** service areas

**PART ONE**  
**STATEMENT OF CHARGES**  
**WASTEWATER SERVICE**

**II. TAXES AND ASSESSMENTS**

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

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**PART ONE**  
**STATEMENT OF CHARGES**  
**WASTEWATER SERVICE**

**III. ADDITIONAL CHARGES**

- |    |  |                      |
|----|--|----------------------|
| A. | Establishment of Service per Rule R14-2-603D (new customer charge, in addition to D and I below) | \$25.00 <sup>2</sup> |
| B. | Re-establishment of Service per Rule R14-2-603D (same customer, same location within 12 months)  | Note <sup>3</sup>    |
| C. | Reconnection of Service (Delinquent)   | 35.00 <sup>4</sup>   |

<sup>2</sup> Initial monthly billing under Part One Section I (Rates) to new wastewater service for homes under construction shall commence no sooner than 30, and no more than 60 days after the water meter is installed. Wastewater billing to new service at existing locations shall be pro-rated from the start of service.

<sup>3</sup> Number of months off system times the sum of the monthly minimum.

<sup>4</sup> Plus cost of physical disconnection and reconnection including parts, labor overhead, and all applicable taxes, including income tax. Per Commission Decision No. XXXXX, Coronado has been given permission to reduce cost by accessing the lateral line on the customer's property. If the customer precludes access to the lateral, the customer will be required to pay the additional cost of disconnection before reconnecting and reestablishing service.

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**PART ONE**  
**STATEMENT OF CHARGES**  
**WASTEWATER SERVICE**

**III. ADDITIONAL CHARGES (cont.)****D. Deposit Requirement<sup>5</sup> per Rule R14-2-603B**

- |    |                          |  |
|----|--------------------------|--|
| 1. | Residential customer     | 2 times estimated<br>average monthly bill        |
| 2. | Non-residential customer | 2-1/2 times<br>estimated maximum<br>monthly bill |
| 3. | Deposit Interest         | 3.5%   |

<sup>5</sup> The Company does not normally require a deposit prior to the provision of service. However, if the service is not in the property owner's name, this deposit is required. Also in the event service is disconnected due to nonpayment, this deposit may be required.

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**PART ONE**  
**STATEMENT OF CHARGES**  
**WASTEWATER SERVICE**

**III. ADDITIONAL CHARGES (cont.)**

E.	Charge for NSF Check per Rule R14-2-608E	\$25.00
F.	Deferred Payment Finance Charge, per month	1.5%
G.	Late Payment, Per Month, per Rule R14-2-608F	See Notes <sup>6 7 8</sup>
H.	Service Calls - per hour, after hours	\$ 40.00
I.	Main Extension Tariff and additional facilities agreements	Cost <sup>9</sup>

---

<sup>6</sup> 1.5% of the unpaid balance.

<sup>7</sup> This charge shall not apply if the customer has arranged for a Deferred Payment Plan.

<sup>8</sup> Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All Late Payment Charges shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the Late Payment Charge by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the Late Payment Charges by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation of other Tariff or Rule provisions. All customers whose service is terminated for failure to pay the Late Payment Charges are subject to the Company's reconnection charges set forth in the Company's Tariff.

<sup>9</sup> Cost includes parts, labor overhead, and all applicable taxes, including income tax.

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**PART ONE**  
**STATEMENT OF CHARGES**  
**WASTEWATER SERVICE**

**IV. PERMITTED COSTS**

- A. Costs shall be verified by invoice.
- B. For services that are provided by the Company at cost, costs shall include labor, materials, other charges incurred, and overhead. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.
- C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.
- D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date.
- E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.
- F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for wastewater facilities under which the Customer advances or contributes funds or facilities to the Company.

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6825 E. Tennessee Avenue, Suite 547  
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Applies to all **WASTEWATER** service areas

**PART TWO**  
**STATEMENT OF TERMS AND CONDITIONS**  
**WASTEWATER SERVICE**

**I. CUSTOMER DISCHARGE TO SYSTEM**

**A. Service Subject to Regulation**

The Company provides wastewater service using treatment and collection facilities that are regulated by numerous county, state and federal Statutes and Regulations. Those Regulations include limitations as to domestic strength wastewater and the type of wastewater that may be discharged into the system by any person directly or indirectly connected to the plant.

**B. Waste Limitations**

The Company has established the permissible limits of concentration as domestic strength wastewater and will limit concentration for various specific substances, materials, waters, or wastes that can be accepted in the sewer system, and to specify those substances, materials, waters, or wastes that are prohibited from entering the sewer system. Each permissible limit so established shall be placed on file in the business office of the Company, with a copy filed with the Commission. No person shall discharge, or cause to be discharged, any new sources of inflow including, but not limited to, storm water, surface water, groundwater, roof runoffs, subsurface drainage, cooling water, or polluted industrial process waters into the sanitary sewer. The Company will require an affidavit from all commercial and industrial customers, and their professional engineer, stating that the wastewater discharged to the system does not exceed domestic strength.

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Applies to all **WASTEWATER** service areas

**PART TWO**  
**STATEMENT OF TERMS AND CONDITIONS**  
**WASTEWATER SERVICE**

**I. CUSTOMER DISCHARGE TO SYSTEM (cont.)****C. Inspection and Right of Entry**

Every facility that is involved directly or indirectly with the discharge of wastewater to the Treatment Plant may be inspected by the Company as it deems necessary. These facilities shall include but not be limited to sewer; sewage pumping plants; all processes; devices and connection sewer; and all similar sewerage facilities. Inspections may be made to determine that such facilities are maintained and operated properly and are adequate to meet the provisions of these rules. Inspections may include the collection of samples. Authorized personnel of the Company shall be provided immediate access to all of the above facilities or to other facilities directly or indirectly connected to the Treatment Plant at all reasonable times including those occasioned by emergency conditions. Any permanent or temporary obstruction to easy access to the user's facility to be inspected shall promptly be removed by the facility user or owner at the written or verbal request of the Company and shall not be replaced. No person shall interfere with, delay, resist or refuse entrance to an authorized Company representative attempting to inspect any facility involved directly or indirectly with a discharge of wastewater to the Treatment Plant. Adequate identification shall be provided by the Company for all inspectors and other authorized personnel and these persons shall identify themselves when entering any property for inspection purposes or when inspecting the work of any contractor.

All transient motor homes, travel trailers and other units containing holding tanks must arrive at the Company's service area in an empty condition. Inspection will be required of said units prior to their being allowed to hookup to the wastewater system.

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Applies to all WASTEWATER service areas

**PART TWO**  
**STATEMENT OF TERMS AND CONDITIONS**  
**WASTEWATER SERVICE**

**II. RULES AND REGULATIONS**

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-601 through A.A.C. R14-2-609 will be controlling of Company procedures, unless specifically approved tariffs or Commission Order(s) provide otherwise.

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**PART THREE  
ALTERNATE RATES FOR WASTEWATER (ARW)  
DOMESTIC SERVICE – SINGLE FAMILY ACCOMMODATION**

APPLICABILITY

Applicable to residential wastewater service for domestic use rendered to low-income households where the customer meets all the Program qualifications and Special Conditions of this rate schedule.

TERRITORY

Within all Customer Service Areas served by the Company.

RATES

Twenty-five percent (25%) discount applied to the regular filed tariff.

PROGRAM QUALIFICATIONS

1. The Coronado Utilities bill must be in your name and the address must be your primary residence or you must be a tenant receiving sewer service for which you are responsible.
2. You may not be claimed as a dependent on another person's tax return.
3. You must reapply each time you move.
4. You must renew your application every two years, or sooner, if requested.
5. You must notify Coronado Utilities within 30 days if you become ineligible for ARW.
6. Your total gross annual income of all persons living in your household cannot exceed the income levels below:

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**Effective January 2009**

<u>No. of Person in Household</u>	<u>Total Gross Annual Income</u>
1	\$10,830
2	14,570
3	18,310
4	22,050
5	25,790
6	29,530

For each additional person residing in the household, add \$3,740

For the purpose of the program the "gross household income" means all money and non cash benefits, available for living expenses, from all sources, both taxable and non taxable, before deductions for all people who live in my home. This includes, but is not limited to:

Wages or salaries	Social Security, SSI, SSP	Rental or royalty income
Interest or dividends from:	Scholarships, grants, or other aid	Profit from self-employment
Savings account, stocks or bonds	used for living expenses	(IRS form Schedule C, Line 29)
Unemployment benefits	Disability payments	Worker's Compensation
TANF (AFDC)	Food Stamps	Child Support
Pensions	Insurance settlements	Spousal Support
Gifts		

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**SPECIAL CONDITIONS**

1. Application and Eligibility Declaration: An Application and eligibility declaration on a form authorized by the Commission is required for each request for service under this schedule. Renewal of a customer's eligibility declaration will be required, at least, every two years.
2. Commencement of Rate: Eligible customers shall be billed on this schedule commencing with the next regularly scheduled billing period that follows receipt of application by the Utility.
3. Verification: Information provided by the applicant is subject to verification by the Utility. Refusal or failure of a customer to provide documentation of eligibility acceptable to the Utility, upon request by the Utility, shall result in removal from this rate schedule.
4. Notice From Customer: It is the customer's responsibility to notify the Utility if there is a change of eligibility status.
5. Rebilling: Customers may be re-billed for periods of ineligibility under the applicable rate schedule.

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Denver, CO 80224

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CORONADO UTILITIES, INC.  
APPLICATION AND DECLARATION FOR  
ALTERNATE RATES FOR WASTEWATER PROGRAM

Your Name (Please Print) \_\_\_\_\_

Coronado Utilities, Inc. Account No. | | | | | | | | | | | | | | | |

Service Address \_\_\_\_\_

Mailing Address \_\_\_\_\_  
(if different from above address)

Telephone No. (home) \_\_\_\_\_ (work) \_\_\_\_\_

Number of people living in your household: Adults | | | + Children | | | = Total | | |

Total Gross Annual Income of Household \_\_\_\_\_

Please attach proof of income for eligibility verification.

By signing below, I certify under penalty of perjury that this information is true and correct under the laws of the State of Arizona. I will provide proof of income and I will notify Coronado Utilities, Inc. of any changes that affect my eligibility. I understand that if I receive the discount without meeting the qualifications for it, I may be required to pay back the discount I received.

Customer Signature \_\_\_\_\_

Date \_\_\_\_\_

Issued: \_\_\_\_\_

Effective : \_\_\_\_\_

ISSUED BY:

Jason Williamson, President  
6825 E. Tennessee Avenue, Suite 547  
Denver, CO 80224

DOCKET NO. \_\_\_\_\_

Cancelling Sheet No. \_\_\_\_

Mail completed application to:

FOR CORONADO UTILITIES, INC. USE ONLY

Date received \_\_\_\_\_ Date Verified \_\_\_\_\_ Verified By \_\_\_\_\_

Issued: \_\_\_\_\_

ISSUED BY:

Effective : \_\_\_\_\_

Jason Williamson, President  
6825 E. Tennessee Avenue, Suite 547  
Denver, CO 80224

# **ATTACHMENT 2**



<b>COMPANY NAME</b> CORONADO UTILITIES, INC.	
<b>Name of System:</b>	<b>Wastewater Inventory Number (if applicable):</b> 105607

**WASTEWATER COMPANY PLANT DESCRIPTION**  
**TREATMENT FACILITY**

<b>TYPE OF TREATMENT</b> (Extended Aeration, Step Aeration, Oxidation Ditch, Aerobic Lagoon, Anaerobic Lagoon, Trickling Filter, Septic Tank, Wetland, Etc.)	Modified extended aeration process with denitrification
<b>DESIGN CAPACITY OF PLANT</b> (Gallons Per Day)	.350 MGD

**LIFT STATION FACILITIES**

Location	Quantity of Pumps	Horsepower Per Pump	Capacity Per Pump (GPM)	Wet Well Capacity (gals)
Mobile Manor Ocotillo Street	2	4.5	480	2,114
Airport Lift Station, Airport Road	2	4.5	480	897
Effluent Lift Station (WWTP site)	2	50	400	20,000

**FORCE MAINS**

Size	Material	Length (Feet)
4-inch		
6-inch		

**MANHOLES**

Type	Quantity
Standard	314
Drop	

**CLEANOUTS**

Quantity

***Note: If you are filing for more than one system, please provide separate sheets for each system.***

COMPANY NAME CORONADO UTILITIES, INC.

Name of System:

Wastewater Inventory Number (if applicable): 105607

**WASTEWATER COMPANY PLANT DESCRIPTION (CONTINUED)**

**COLLECTION MAINS**

**SERVICES**

Size (in inches)	Material	Length (in feet)
4		
6	Clay	44,973
8	Clay	35,068
10	Clay	6,275
12	Clay	2,350
15	Clay	10,485
18		
21		
24		
30		

Size (in inches)	Material	Quantity
4		
6		
8		
12		
15		

**FOR THE FOLLOWING FIVE ITEMS, LIST THE UTILITY OWNED ASSETS IN EACH CATEGORY  
PER WASTEWATER SYSTEM**

<b>SOLIDS PROCESSING AND HANDLING FACILITIES</b>	Grit Chamber, bar screen, roto-screen Sludge digesting tank with scum pump and sludge drying beds
<b>DISINFECTION EQUIPMENT</b> (Chlorinator, Ultra-Violet, Etc.)	Liquid Chlorination System & Chlorine Contact Tank
<b>FILTRATION EQUIPMENT</b> (Rapid Sand, Slow Sand, Activated Carbon, Etc.)	N/A
<b>STRUCTURES</b> (Buildings, Fences, Etc.)	Operations building, perimeter fence
<b>OTHER</b> (Laboratory Equipment, Tools, Vehicles, Standby Power Generators, Etc.)	Process and testing equipment/backhoe/utility Truck/pressure washer/flow meters

*Note: If you are filing for more than one system, please provide separate sheets for each system.*

COMPANY NAME CORONADO UTILITIES, INC.

Name of System:

Wastewater Inventory Number (if applicable): 105607

**WASTEWATER FLOWS**

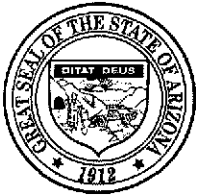
MONTH/YEAR (Most Recent 12 Months)	NUMBER OF SERVICES	TOTAL MONTHLY SEWAGE FLOW	SEWAGE FLOW ON PEAK DAY
January	1315	7,657,000	247,000
February	1315	6,960,000	240,000
March	1321	7,037,000	227,000
April	1320	6,540,000	218,000
May	1309	6,820,000	220,000
June	1297	6,720,000	224,000
July	1312	6,479,000	209,000
August	1311	6,696,000	216,000
September	1313	6,180,000	206,000
October	1326	7,750,000	250,000
November	1299	7,410,000	247,000
December	1301	7,626,000	246,000

**PROVIDE THE FOLLOWING INFORMATION AS APPLICABLE PER WASTEWATER  
SYSTEM**

Method of Effluent Disposal (leach field, surface water discharge, reuse, injection wells, groundwater recharge, evaporation ponds, etc.)	Golf course reuse – or – Evaporation ponds
Groundwater Permit Number	N/A
ADEQ Aquifer Protection Permit Number	P105607
ADEQ Reuse Permit Number	R105906
EPA NPDES Permit Number	N/A

*Note: If you are filing for more than one system, please provide separate sheets  
for each system.*

# **ATTACHMENT 3**



Janice K. Brewer  
Governor

# ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007  
(602) 771-2300 • [www.azdeq.gov](http://www.azdeq.gov)



Patrick J. Cunningham  
Acting Director

March 2, 2009

Pivotal Utility Management, LLC  
Mr. Jason Williamson, President  
6825 E. Tennessee Ave Suite 547  
Denver, CO 80224

RE: Compliance Status for San Manuel WWTP, Place ID: 23636  
Inventory number 105607, Permit number 35672.

Dear Mr. Williamson;

Your request for evaluation of compliance status for the above facility is completed. Our records indicate that San Manuel, WWTP has Aquifer Protection Permit number 35672 issued on 5/17/2007.

The aquifer protection permit reporting requirements and monitoring results which have been submitted indicate the facility **is in compliance** based on the current information that is available to ADEQ. No enforcement actions are pending.

It should be understood that the compliance status of a facility may change from time to time based upon monitoring results or a facility inspection. Therefore this is based on the most current information available.

Sincerely yours;

Fred Vakili, EHS II  
Water Quality Data Unit  
Water Quality Enforcement Section, ADEQ.  
**FAV@AZDEQ.GOV**

Northern Regional Office  
1515 East Cedar Avenue • Suite F • Flagstaff, AZ  
86004  
(602) 771-2300

Southern Regional Office  
400 West Congress Street • Suite 433 • Tucson, AZ  
85701  
(602) 771-2300

1 FENNEMORE CRAIG, P.C.  
A Professional Corporation  
2 Jay L. Shapiro (No. 014650)  
Stephanie Johnson (No. 026282)  
3 3003 N. Central Ave., Suite 2600  
Phoenix, Arizona 85012  
4 Telephone (602) 916-5000  
5 Attorneys for Coronado Utilities, Inc.

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7  
8  
9 IN THE MATTER OF THE APPLICATION OF  
CORONADO UTILITIES, INC. FOR A  
10 DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANT AND PROPERTY AND  
11 FOR INCREASES IN ITS RATES AND  
CHARGES FOR UTILITY SERVICE BASED  
12 THEREON.

DOCKET NO: SW-04305A-09-\_\_\_\_\_

13  
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16  
17 **DIRECT TESTIMONY OF**  
18 **JASON WILLIAMSON**

19 **June 3, 2009**  
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2203063.2/12923.003

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jason Williamson and my business address is 6825 E. Tennessee  
4 Avenue, Suite 547, Denver Co 80224.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. On behalf of the Applicant Coronado Utilities, Inc. ("Coronado" or "Company").

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am the President and Manager of Pivotal Utility Management, LLC (hereinafter,  
9 "Pivotal"). Pivotal manages and/ or operates a total of ten water and sewer  
10 utilities, nine of which are in Arizona, seven of those regulated by the Commission.  
11 One water and sewer utility is located in Missouri, and the other two referenced  
12 sewer systems in Arizona are owned by HOA's, which Pivotal manages and  
13 operates under contract. I also hold positions in several of the utilities, including  
14 Coronado, for which I am President and a Director.

15 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES IN THESE**  
16 **POSITIONS?**

17 A. I oversee the day-to-day operations and business management functions for  
18 Pivotal, including providing contract management services for a number of water  
19 and sewer system operations. More details about my duties are listed in my  
20 resume, attached hereto as Attachment 1.

21 **Q. WHAT WAS YOUR EDUCATIONAL AND EMPLOYMENT**  
22 **BACKGROUND BEFORE WORKING FOR PIVOTAL UTILITY**  
23 **MANAGEMENT?**

24 A. I received a Bachelor of Arts degree in International Affairs in 1993, and a Masters  
25 of Business Administration in 1998 from the University of Colorado. While  
26 pursuing my master's degree, I worked for Santec Corporation as a project



1 manager, hiring manager and director of marketing. The rest of my working career  
2 has been my involvement with Pivotal.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

4 A. Yes, I previously testified on behalf of Coronado. That was in the proceedings to  
5 obtain a certificate of convenience and necessity and financing approval. Decision  
6 No. 68608 (March 23, 2006) ("CCN Decision").

7 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
8 **DOCKET?**

9 A. To support Coronado's application for rate relief. Specifically, I will provide  
10 background on the Company and its operations, including discussing the  
11 improvements we made when we took over this sewer system. I will also address  
12 certain aspects of the relief being requested in this case.

13 **II. BACKGROUND AND OVERVIEW OF CORONADO AND ITS**  
14 **OPERATIONS.**

15 **Q. PLEASE PROVIDE AN OVERVIEW OF CORONADO TODAY?**

16 A. Coronado provides wastewater service in the unincorporated town of San Manuel,  
17 Arizona, an area approximately 45 minutes northeast of Tucson, AZ in Pinal  
18 County. Coronado's service area includes the existing town, as well as  
19 surrounding acreage that could eventually be developed. This area is also located  
20 within the CAAG 208 Planning Area, which subjects the location of wastewater  
21 treatment facilities to an additional layer of regulation. In 2008 (our test year), bill  
22 counts had us at approximately 1,241 residential customers, 60 commercial  
23 customers, 4 schools, one trailer park (with approximately 215 mobile homes – all  
24 billed as one customer), and a reclaimed water customer (the San Manuel Golf  
25 Club). Most of the commercial customers are local stores, offices, and churches,  
26 although the Company's customer base is primarily residential.

1 **Q. PLEASE DESCRIBE THE COMPANY'S PRIMARY WASTEWATER**  
2 **TREATMENT FACILITIES.**

3 A. Coronado completed construction of a 0.350 million gallons per day (MGD)  
4 wastewater treatment plant using Modified Extended Aeration technology in 2007.  
5 The facility holds an Aquifer Protection Permit ("APP") from Arizona Department  
6 of Environmental Quality ("ADEQ"), which was obtained in advance of the new  
7 treatment plant installation. This facility replaced the more than 50 year-old  
8 lagoon system owned and operated by the BHP Copper Company ("BHP"). The  
9 plant currently produces B+ effluent that is sold to the local golf course. The  
10 Company also has two lift stations and a combination of gravity and force  
11 collection mains.

12 **Q. IS CORONADO OPERATING IN COMPLIANCE WITH ALL FEDERAL**  
13 **STATE, COUNTY AND/OR LOCAL REGULATIONS?**

14 A. A compliance status report from ADEQ showing that Coronado is in compliance  
15 with the ADEQ APP permit is attached to the application as Attachment 3.

16 **Q. HAS THE COMPANY EXPERIENCED A SIGNIFICANT NUMBER OF**  
17 **COMPLAINTS ABOUT SERVICE FROM CUSTOMERS?**

18 A. We rarely receive any complaints from customers for odors, noise or sewer  
19 service-related issues. On occasion, we have received complaints from customers  
20 regarding billing problems and other tariff related concerns.

21 **Q. WHEN DID THE CURRENT RATES GO INTO EFFECT?**

22 A. The Company's current rates were established in the CCN Decision. The rates  
23 were implemented in three phases to coincide with plant construction, the third and  
24 final phase going into effect June 1, 2008. But that was the CCN Decision. This is  
25 Coronado's first rate case.

26

1 Q. WHY IS CORONADO SEEKING RATE RELIEF AT THIS TIME?

2 A. Because the Commission ordered it to. CCN Decision at 31.

3 Q. DOES THAT MEAN CORONADO DOES NOT WANT TO FILE THIS  
4 RATE CASE?

5 A. No, although we are fearful that the rate case expense will be a burden on the  
6 Company and our customers. As the Commission is aware, there has been a lot of  
7 controversy since Coronado purchased this system from BHP.

8 Q. WHAT CONTROVERSY?

9 A. Our initial CC&N and financing application became a long, expensive and  
10 protracted proceeding before the Commission. During this process, and as  
11 prescribed by the Commission, multiple hearings and opportunities for public  
12 comment were afforded to members of the San Manuel community. Then, after  
13 the CCN Decision, the community continued to express dissatisfaction with the  
14 Commission-approved rates. Coronado received much of the blame for BHP's  
15 decision to divest from the sewer utility business. Our initial rates included  
16 substantial costs that had not been borne previously, for the construction and  
17 operations of a new treatment facility in order to meet the current environmental  
18 standards. It must be recalled that the old wastewater facility had been built in the  
19 1950's under a mining permit as part of BHP's overall operations.

20 It further bears recalling that BHP, which recently closed its mining  
21 operations in San Manuel, and was in the process of closure and remediation, no  
22 longer retained the incentive to subsidize the community with respect to the sewer  
23 service, as well as other utilities and infrastructure. BHP's exit from the mining  
24 business, and associated community services, combined with the need to construct  
25 a new wastewater treatment facility to service the community going forward, led to  
26 a substantial increase in rates. The cost of the new plant, and loss of the subsidy,

1 has caused dissension, and we are the ones catching the blast.

2 **Q. HOW MUCH WAS THE INCREASE IN RATES TO YOUR CUSTOMERS**  
3 **AS A RESULT OF THE CCN DECISION?**

4 A. BHP was charging \$48 a year for service. Our current rate is roughly \$46 per  
5 month. These rates were, however, phased in over three years pursuant to a  
6 proposal we made and the Commission adopted in the CCN Decision.

7 Meanwhile, subsequent to the CCN Decision, the Commission has held two  
8 Town Hall meetings where customers have been allowed to express their  
9 dissatisfaction with the rates the Commission-approved rates. Then, more recently,  
10 the Commission reopened the CCN Decision to consider whether anything could  
11 be done to reduce the impact of rate increases when we took over.

12 If the past is a picture of our future, and this sort of controversy were to  
13 continue through this Commission-ordered rate case, we are going to incur a whole  
14 lot of rate case expense which we will seek to recover from our customers. It is  
15 likely this rate case all by itself will have the near-term effect of rekindling the now  
16 smoldering coals of discontent. We don't also need the unfortunate net effect of  
17 another long and costly proceeding before the Commission. Keep in mind that  
18 Coronado is a small utility, struggling to simply break-even, and we really cannot  
19 afford to engage in a lengthy and costly battle over our rates.

20 **Q. IS THE COMPANY SEEKING ADDITIONAL RATE INCREASES IN THIS**  
21 **RATE CASE?**

22 A. Yes. As reflected in Mr. Bourassa's testimony and schedule, Coronado believes a  
23 17.7% increase is necessary and warranted at this time. Direct Testimony of  
24 Thomas J. Bourassa (Rate Base, Income Statement, and Rate Design) ("Bourassa  
25 DT") at 3. But, I feel very strongly that the rate increase requested is modest,  
26 especially when considering the difficult political environment, the high

1 delinquency rates, and rising costs that Coronado has been faced with since its  
2 inception.

3 **Q. WHAT DO YOU MEAN BY "HIGH DELINQUENCY RATES"?**

4 A. Presently, roughly 10% of Coronado customers are delinquent, which is very high  
5 relative to the 1% bad debt allowance included in our initial rate design/ revenue  
6 requirement. We are forced to write off an increasing annual amount as  
7 uncollectible or bad debt each year. We predicted something like this when we  
8 filed for the CC&N, but Staff disagreed and substantially reduced our projected  
9 amount of bad debt expense. Staff clearly undershot this projection, and we expect  
10 this problem will continue, and may worsen if the economy in San Manuel does  
11 not improve soon.

12 **Q. HOW HAS THE ECONOMY IMPACTED CORONADO'S SERVICE**  
13 **AREA?**

14 A. The most immediate impact of the economic downturn appears to be the continued  
15 high delinquencies. We are attempting to take steps to address the high  
16 delinquency rate in this rate filing, including the inclusion of an appropriate level  
17 of bad debt expenses in our operating expenses and modifications to our tariff, as I  
18 discuss further below.

19 **Q. HAS CORONADO TAKEN ANY STEPS TO REDUCE THE COMPANY'S**  
20 **OPERATING EXPENSES?**

21 A. Coronado and Pivotal are focused on a formal budget process that constantly  
22 reviews its expenses, and reports quarterly to directors on its ability to meet or beat  
23 the budget projections. This process has been successful in reducing our operating  
24 costs through the use of more efficient and better trained local staff, and a revision  
25 to the supervisory structure, which includes a stronger and more frequent  
26 involvement of the ownership in supervision – which are by nature better focused

1 on improving the integration of the operational and financial functions. Every site  
2 inspection conducted by Pivotal includes a discussion of what can be cut from an  
3 operations cost perspective, including electricity, supplies, chemicals and lab  
4 testing. In fact, our most recent amendment application to ADEQ included a  
5 formal request for reduction of lab sampling from daily (where samples need to be  
6 driven 90 minutes each way 4-5 days per week), to once weekly. If approved, this  
7 could result in a cost savings through reduced transportation and personnel  
8 expense, not to mention the lab expense itself.

9 **Q. HAS THE COMPANY EXPERIENCED ANY CUSTOMER GROWTH**  
10 **SINCE THE CCN DECISION?**

11 A. No, we have actually had a reduction in our customer base since our initial CCN  
12 Decision, as one of the mobile home parks closed, and it has remained closed ever  
13 since. At this time, we are not aware of any developers or builders planning new  
14 development in the future.

15 **III. SUMMARY OF SIGNIFICANT SYSTEM IMPROVEMENTS AND**  
16 **CHANGES IN OPERATING EXPENSES**

17 **Q. IF YOU HAD JUST TAKEN OVER FOR BHP AND HAD NOT YET BUILT**  
18 **A NEW TREATMENT PLANT, HOW WERE YOUR CURRENT RATES**  
19 **DETERMINED?**

20 A. Largely with pro forma expenses, although due to Pivotal's experience in operating  
21 similar facilities in Arizona, our estimations were close to reality. Still, as one  
22 might expect, since the initial CC&N request was made in 2004/2005, many of the  
23 assumptions used with respect to the pro forma expenses have changed  
24 substantially.

25 **Q. WHY WAS A NEW TREATMENT FACILITY BUILT?**

26 A. The new treatment plant was constructed because the old system, built in the

1 1950's by the mine, was no longer suitable, efficient, or permissible under the  
2 current ADEQ guidelines for public sewer systems. Further, since BHP was in the  
3 process of closing the mine, the form of disposal being used (i.e., discharge from  
4 the ponds into the mine tailings) would no longer be an option. As part of the  
5 construction of a new treatment facility, a new disposal method was designed,  
6 permitted and implemented. In this case, and with the financial assistance of BHP,  
7 we are pumping our effluent approximately 3 miles to the golf course, for irrigation  
8 purposes. This has the further public benefit of reducing groundwater use.

9 **Q. WHO BUILT THE NEW WASTEWATER TREATMENT FACILITY?**

10 A. The new treatment plant was constructed under a contract with Santec Corporation.  
11 Santec is an affiliate of Coronado in that they have some common shareholders. I  
12 do not have any interest in Santec.

13 **Q. WHAT DOES SANTEC DO?**

14 A. Santec is engaged in the business of the design, engineering and construction of  
15 wastewater systems. It has been in business since 1986. Santec has designed and  
16 built over 150 water reclamation facilities in 22 states and the U.S. Virgin Islands.

17 **Q. WAS SANTEC THE SUCCESSFUL BIDDER?**

18 A. Yes. Coronado undertook a formal Request for Proposal or RFP bid process both  
19 for the construction of the WWTP and the effluent line from the site to the Golf  
20 Course. As President of Coronado, and with the help of our engineering  
21 consultants, I oversaw the bid process. We had 13 attendees at the pre-bid  
22 conference, representing eight companies, four of which were interested in the  
23 WWTP construction. Unfortunately, however, only Santec ended up submitting a  
24 formal bid to construct the WWTP.

25 **Q. WAS THEIR BID COMPETITIVE?**

26 A. In my view, yes. First, the entire process was set up to be open and transparent and

1 provide an opportunity for the market to give us the best price. Although it turned  
2 out only one entity was willing and able to do the work, it doesn't appear that  
3 Santec tried to take advantage of the situation to recover an above-market cost.  
4 The cost ended up being approximately \$8.50 per treated gallon. This is well  
5 below the \$12-\$20 costs per gallon we have been and are seeing today for new  
6 treatment capacity. In short, thankfully Santec was there to build this sorely  
7 needed new facility to serve the San Manuel community. Perhaps this is why,  
8 neither Staff nor the Commission expressed concern over the projected  
9 construction costs by Santec in the very thorough CC&N Proceeding.

10 **Q. WHAT OTHER SIGNIFICANT IMPROVEMENTS HAS CORONADO**  
11 **MADE?**

12 A. As mentioned above, the entire plan of the new facilities, including the pipeline  
13 transferring treated effluent from the treatment plant site to the golf course, was  
14 designed to provide a reliable and long-term solution for the community, at a  
15 reasonable net cost. With the help of BHP (i.e., their cap on the cost to Coronado  
16 for the installation of the pipeline to the golf course – BHP would pay anything  
17 over \$250,000), the new wastewater treatment facility is well positioned to provide  
18 current customers quality service for a substantial period of time. We also have the  
19 ability to expand the facility to accommodate future growth in the event it occurs.  
20 These facility improvements therefore represent a significant improvement that  
21 will be key in facilitating future growth in the San Manuel community.

22 **Q. WHAT ARE CORONADO'S MOST SIGNIFICANT OPERATING**  
23 **EXPENSES?**

24 A. Coronado's largest five expenses in the Test Year (not including Depreciation –  
25 shown as a percentage of gross revenues) are: Interest Expense to Bondholder  
26 (18.1%); Other Contractual Services (incl. Pivotal Mgmt.) (13.1%); Operations



Contractor (10.9%); Purchased Power (6%); and Bad Debt (5.2%).

**Q. DO THE COMPANY'S TEST YEAR OPERATING EXPENSES DIFFER FROM THE OPERATING EXPENSES ESTIMATED IN THE CCN DECISION?**

A. In comparing the top five expenses in the test year (as shown above) against the original CC&N pro forma estimate (which were developed in 2005), the comparative increase(decrease) as a percentage of gross revenue are: Interest Expense to Bondholder +0.7%; Other Contractual Services (incl. Pivotal Mgmt.) +0.5%; Operations Contractor +1.2%; Purchased Power -2.6%; and Bad Debt +4.2%. In general, the original estimates were fairly accurate in the aggregate, but since the gross revenues were 4.2% lower than projected in the pro forma, the relative increase in expenses are magnified somewhat. The largest increase was in the Bad Debt Expense, which, as I noted above, is well above the percentage recommended by Staff and adopted by the Commission in the CCN Decision.

**Q. IS THE OPERATIONS CONTRACTOR AN AFFILIATE?**

A. No.

**Q. DOES PIVOTAL CHARGE OVERHEAD OR PROFIT ON ITS SERVICES TO CORONADO?**

A. Yes, but all profit has been excluded from the operating expenses proposed in this case. See Bourassa DT at 11.

**IV. PROPOSED TARIFF CHANGES.**

**Q. IS CORONADO PROPOSING ANY CHANGES TO ITS TARIFF OF RATES AND CHARGES?**

A. Yes. We are proposing a change in the cost of reconnection of sewer service after disconnection for non-payment, and a low income tariff. A revised Tariff of rates and charges showing these additions and changes is attached to the Company's

1 application as Attachment 1.

2 **Q. WHAT CHANGE IS CORONADO PROPOSING FOR THE**  
3 **RECONNECTION COST?**

4 A. Coronado proposes to charge the actual cost to disconnect plus the cost to  
5 reconnect.

6 **Q. WHY DO YOU BELIEVE THIS IS APPROPRIATE?**

7 A. As I explained above, we have very high delinquency rates. To stem this tide, we  
8 are requesting that the Commission approve recovery of the actual cost of  
9 disconnection, which typically will include the cost to dig, plug (disconnect), and  
10 then reconnect a sewer service line upon receipt of payment in full from the  
11 customer. In addition, we are requesting that the Commission, for the benefit of  
12 our customer, authorize Coronado to perform this work on the property of the  
13 Customer, so that Coronado can do everything in its power to minimize the cost of  
14 excavation and backfill. It can cost ten times more if we have to dig up and  
15 disconnect the sewer service in the street.

16 **Q. DOES THE COMPANY HAVE ANY OTHER WAY OF DISCONTINUING**  
17 **SEWER UTILITY SERVICE FOR NON-PAYMENT?**

18 A. No.

19 **Q. THANK YOU. TURNING TO THE LOW INCOME TARIFF, DOES THE**  
20 **COMPANY CURRENTLY HAVE A LOW INCOME TARIFF?**

21 A. No, but we were encouraged to file one with the application by some of the  
22 commissioners. We have done so in this case. See Application, Attachment 1.

23 **Q. WHY IS THE COMPANY PROPOSING THAT A LOW INCOME TARIFF**  
24 **BE APPROVED IN THIS RATE CASE?**

25 A. We understand that low income tariffs are a regulatory tool used to provide some  
26 relief to lower income ratepayers and, with the recent downturn in our economy,

1 we understand that the Commission has focused even more on the need for these  
2 tariffs. Coronado wants to provide an opportunity for those customers that truly  
3 need assistance to lower the cost of water utility service. Mr. Bourassa explains in  
4 detail how the Company's proposed low income tariff will work. Bourassa DT at  
5 13. We understand that this model was recently proposed by Mr. Bourassa for  
6 Chaparral City Water, with support from Staff and RUCO, and that it is similar to  
7 the model used in California by Golden State Water.

8 **Q. DOES THE LOW INCOME TARIFF IMPACT CORONADO'S REVENUE**  
9 **REQUIREMENT?**

10 A. No, recovery is shifted between customers because those customers that pay the  
11 normal rates are subsidizing those customers that obtain a discount on the cost.

12 **Q. HOW DOES THE COMPANY CURRENTLY HANDLE CUSTOMERS**  
13 **WHO GET BEHIND ON PAYMENTS OR CAN'T PAY THEIR BILL?**

14 A. The Company handles delinquent accounts on a case-by-case basis. In general, we  
15 inform the customer of their delinquency by letter and/ or door-hanger and request  
16 that they contact us to arrange a payment plan. If that is unsuccessful, we send the  
17 matter to a collections agency that specializes in utility collections. Payment plans  
18 usually involve committed payment amounts on specific dates and usually do not  
19 extend beyond 90 days. While we sometimes notify delinquent customers of our  
20 ability to legally shut off service, we have refrained from this practice, primarily  
21 due to the cost as I discussed above.

22 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

23 A. Yes.  
24  
25  
26

# **ATTACHMENT 1**

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## JASON WILLIAMSON

### EMPLOYMENT

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**1999 - Present Pivotal Utility Management, LLC** **Denver, CO**  
*Managing Partner, President*

- Provide contract management services for water and sewer system operations (using local certified subcontractors) at eleven locations in Arizona and Missouri. Duties include regular site visits to locations and on-site reviews of operation performance and regulatory compliance.
- Supervise billing and customer support services to nearly 4,000 sewer and water utility customers in six different locations in Arizona.
- Provide and oversee accounting, bookkeeping, and financial reporting functions for six regulated utility companies (using NARUC accounting).
- Supervise regulatory compliance monitoring, ensuring permit compliance with laboratory reporting schedules for multiple environmental permits at locations in Arizona and in Missouri.
- Provide rate-case support and tariff design for new and existing investor-owned utilities (including testifying in cases before the Arizona Corporation Commission).
- Provide lead in corporate support services, including maintenance of corporation books and minutes, holding and leading regular meetings of boards and shareholders, and regular financial reporting/ budgeting.
- Worked with officials from State of Missouri's Public Service Commission to establish and provide a court-appointed "Receiver" for a small, distressed water and sewer utility company in central Missouri.
- Organized and established new company providing full range of services designed for small water/ sewer utility companies, and special districts.
- Consulted with land developers on water and sewer aspects of the entitlement process, including establishment of new regulated utilities. Focus was to maintain timeframes for obtaining regulatory approvals while implementing creative financing approaches to reduce capital expense and pace infrastructure spending with development demand.

**1993 - 1999 Santec Corporation, Inc.** **Castle Rock, CO**  
*Project Manager, Hiring Manager, Director of Marketing, Business Development*

- Direct Sales of Wastewater Treatment Equipment and Design Services to the development and engineering industries.
- In project management role, worked with customers to obtain state and federal regulatory approvals of treatment equipment designs.
- Hired company staff, including engineers and sales professionals, and provided supervision and training for new staff.

- Designed and implemented marketing strategies that successfully expanded Santec's footprint by five new states during tenure.
- Worked with company owners to re-engineer business processes and service offerings to better meet customer demands.

#### OTHER UTILITY COMPANY POSITIONS (AT PRESENT)

- 1997 – Present: Verde Santa Fe Wastewater Company, Inc.; Cottonwood, AZ; Shareholder, President, Director
- 2005 – Present: Coronado Utilities, Inc.; San Manuel, AZ; Shareholder, President, Director
- 2003 – Present: Pine Meadows Utilities, LLC; Payson, AZ; Member, President
- 2003 – Present: Bensch Ranch Utilities, LLC; Dewey, AZ; Member, President

#### EDUCATION

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- |             |  |             |
|-------------|--|-------------|
| 1989 - 1993 | University of Colorado                           | Boulder, CO |
|             | <i>Bachelor of Arts</i>                          |             |
| ■           | Major – International Affairs/ Minor - Economics |             |
| 1996 - 1998 | University of Colorado                           | Denver, CO  |
|             | <i>Master of Business Administration</i>         |             |
| ■           | Achieved while working in Castle Rock Full-Time  |             |

#### REFERENCES

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Joshua J. Meyer – Arizona Real Estate Attorney & Former Partner: Ph: (928) 580-5522; 12155 Calle Entrada; Yuma, AZ 85367

Pat Carpenter – Contractor and Certified Water & Sewer Operator: Ph: (928) 606-0498; P.O. Box 264; Williams, AZ 86046

Bob Dodds – Vice President, Service Delivery – Algonquin Water Services: Ph: (905) 465-4523; 12725 W. Indian School Rd.; Avondale, AZ 85323

Gerald Brunskill – Manager of Closure Operations – BHP Billiton (BHP is preferred shareholder in Coronado Utilities); Ph: (520) 385-3241; P.O. Box M; San Manuel, AZ 85631

Bud Carr – Owner/ President of Rainbow Parks (Pivotal is manager/ operator of Water/ Sewer systems in Congress, AZ); Ph: (936) 328-3727; 100 Rainbow Dr.; Livingston, TX 77351

Gary Martinson – President of Bison Homes (developer of Bison Ranch WWTP, Heber, AZ – Pivotal is operator); Ph: (602) 837-8700; 16927 E Saguaro Blvd.; Fountain Hills, AZ 85268

1 FENNEMORE CRAIG  
Jay L. Shapiro (No. 014650)  
2 Stephanie Johnson (No. 026282)  
3003 N. Central Ave.  
3 Suite 2600  
Phoenix, Arizona 85012  
4 Attorneys for Coronado Utilities, Inc.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7 IN THE MATTER OF THE  
8 APPLICATION OF CORONADO  
UTILITIES, INC., AN ARIZONA  
9 CORPORATION, FOR A  
DETERMINATION OF THE FAIR  
10 VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN  
11 ITS RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: SW-04305A-09-\_\_\_\_\_

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18 **DIRECT TESTIMONY OF**  
19 **THOMAS J. BOURASSA**  
20 **(RATE BASE, INCOME STATEMENT AND RATE DESIGN)**

21 **June 3, 2009**  
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1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

6 A. I am a Certified Public Accountant and am self-employed, providing consulting  
7 services to utility companies as well as general accounting services. I have a B.S.  
8 in Chemistry and Accounting from Northern Arizona University (1980) and an  
9 M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

10 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND**  
11 **REGULATORY EXPERIENCE?**

12 A. Yes. Prior to becoming a private consultant, I was employed by High-Tech  
13 Institute, Inc., and served as controller and chief financial officer. Prior to working  
14 for High-Tech Institute, I worked as a division controller for the Apollo Group,  
15 Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode,  
16 CPAs. In that position, I prepared compilations and other write-up work for water  
17 and wastewater utilities, as well as tax returns.

18 In my private practice, I have prepared and/or assisted in the preparation of  
19 several water and wastewater utility rate applications before the Arizona  
20 Corporation Commission ("Commission"). A summary of my regulatory work  
21 experience is attached hereto as Attachment 1.

22 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

23 A. I am testifying on behalf of the applicant, Coronado Utilities, Inc. ("Coronado" or  
24 "the Company"). Coronado is seeking increases in its rates and charges for sewer  
25 utility service in its certificated service area, which is located in and around the  
26 unincorporated Town of San Manuel in Pinal County, Arizona.

1 **II. OVERVIEW OF THE COMPANY'S RATE FILING.**

2 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

3 A. I will testify in support of the Company's proposed adjustments to its rates and  
4 charges for sewer utility service. I am sponsoring the direct schedules, which are  
5 filed concurrently herewith in support of the Company's application. I was  
6 responsible for the preparation of these schedules based on my investigation and  
7 review of Coronado's relevant books and records and my consultation with the  
8 Company's principals.

9 For convenience, my direct testimony is prepared in two separate volumes,  
10 each with the relevant schedules attached. In this volume of my direct testimony, I  
11 address the Company's rate base, its income statement (revenue and operating  
12 expenses), its required increase in revenue, and its rate design and proposed rates  
13 and charges for service. Schedules A through C, E, F and H are attached to this  
14 portion of my direct testimony. The Company has not prepared a cost of service  
15 study because it is not proposing a change to its basic rate design, so the G  
16 Schedules are omitted.

17 In the second volume of my direct testimony, to which the D schedules are  
18 attached, I address capital structure and cost of capital. Coronado is requesting a  
19 return on common equity of 14.0 percent. As shown on Schedule D-1, the  
20 Company's capital structure for ratemaking purposes consists of 29.4 percent  
21 equity (15.6 percent preferred equity and 13.8 percent common equity) and 70.6  
22 percent debt, which leads to a substantial financial risk adjustment. However,  
23 because of Coronado's low cost debt financing, the weighted cost of capital is only  
24 7.36 percent.

25 **Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.**

26 A. The test year used by Coronado is the 12-month period ending December 31, 2008.

1 The Company is requesting a 7.36 percent return on its fair value rate base  
2 ("FVRB"). The Company has also proposed certain pro forma adjustments to take  
3 into account known and measurable changes to rate base, expenses and revenues.  
4 These pro forma adjustments are consistent with normal ratemaking and are  
5 contemplated by the Commission's rules and regulations governing rate  
6 applications. See R14-2-103. These adjustments are necessary to obtain a normal  
7 or realistic relationship between revenues, expenses and rate base on a going-  
8 forward basis.

9 The Company's fair value rate base is \$3,536,648. The increase in revenues  
10 to provide for recovery of operating expenses and a 7.36 percent return on rate  
11 base is approximately \$156,498, an increase of approximately 17.71 percent over  
12 the adjusted and annualized test year revenues.

13 **Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS**  
14 **TIME?**

15 A. The Company was ordered to file a rate case in its Certificate of Convenience and  
16 Necessity decision (Decision No. 68608, March 23, 2006) within 24 months of the  
17 implementation of its Phase 2 rates and charges. Also, since the Company was  
18 granted a CC&N, Coronado has made investments in plant and various operating  
19 expenses have increased. As a consequence, the Company's current rate of return,  
20 based on the adjusted test year data, is only 4.37 percent. Consequently, rate  
21 increases are necessary to ensure that Coronado recovers its reasonable operating  
22 expenses and has an adequate opportunity to earn a reasonable return on the fair  
23 value of its utility plant and property devoted to public service.

24 **III. SUMMARY OF A, E AND F SCHEDULES.**

25 **Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S SCHEDULES.**  
26 **PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.**

1 A. The A-1 Schedule is a summary of the rate base, operating income, current  
2 operating margin, required operating margin, operating income deficiency, and the  
3 increase in gross revenue. A 14.0 percent return on FVRB is requested. The  
4 increase in the revenue requirement is \$156,498. Revenues at present and  
5 proposed and customer classifications are also shown on this schedule.

6 The A-2 Schedule is a summary of results of operations for the test year,  
7 prior years, and a projected year at present rates and proposed rates.

8 Schedule A-3 contains the Company's capital structure for the test year and  
9 the two prior years.

10 Schedule A-4 contains the plant construction, and plant in service for the  
11 test year and prior years. The projected plant additions are also shown on this  
12 schedule.

13 Schedule A-5 is the summary of the Company's changes in financial  
14 position (cash flow) for the prior two years, the test year at present rates, and a  
15 projected year at present and proposed rates.

16 The E Schedules are based on the Company's actual operating results, as  
17 reported by the Company in annual reports filed with the Commission. The E-1  
18 Schedule contains the comparative balance sheet data for the years 2006, 2007,  
19 and 2008, ending on December 31.

20 Schedule E-2, page 1, contains the income statement for the years 2006,  
21 2007, and 2008, ending on December 31.

22 Schedule E-3 contains the statements of changes in the Company's financial  
23 position for the test year and the two prior years.

24 Schedule E-4 provides the changes in membership equity.

25 Schedule E-5 contains the Company's plant in service at the end of the test  
26 year, and one year prior to the end of the test year.

1 Schedule E-7 contains operating statistics for the years ended 2006, 2007,  
2 and 2008, ending on December 31.

3 Schedule E-8 contains the taxes charged to operations.

4 The accountant's notes to the financial statements and the financial  
5 assumptions used in preparing the rate filing schedules are shown on Schedules  
6 E-9 and F-4, respectively, in accordance with the Commission's standard filing  
7 requirements. The Company does not prepare audited financial statements.

8 Schedule F-1 contains the results of operations at the present rates (actual  
9 and adjusted), and at proposed rates.

10 Schedule F-2 contains the summary of changes in financial position (cash  
11 flow) for the prior two years, the test year at present rates, and a projected year at  
12 present and proposed rates.

13 Schedule F-4 shows the projected construction requirements for 2009-2011.

14 Schedule F-4 contains the assumptions used in developing the adjustments  
15 and projections contained in the rate filing.

16 **IV. RATE BASE (B SCHEDULES).**

17 **Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE**  
18 **LABELED AS THE B SCHEDULES?**

19 A. Yes. I will start with Schedule B-5, which is the working capital allowance.  
20 Because Coronado is a small sewer utility, I used the "formula method" of  
21 computing the working capital allowance to reduce costs. The Company is not  
22 requesting a working capital allowance.

23 **Q. PLEASE CONTINUE.**

24 A. The Company did not file Schedules B-3 and B-4. To limit issues in dispute and  
25 attempt to reduce rate case expense, Coronado is requesting that its original cost  
26 rate base ("OCRB") be used as its FVRB.

1 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**  
2 **THE ORIGINAL COST RATE BASE?**

3 A. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by the  
4 Company. Schedule B-2, pages 2 through 6, provides the supporting information.  
5 These adjustments are, in summary:

6 Adjustment number 1, as shown on Schedule B-2, page 3, adjusts plant-in-  
7 service to the reconciled amount per the Company plant detail.

8 **Q. DO THE PLANT COSTS INCLUDE AFFILIATE PROFIT?**

9 A. Yes. An affiliated entity, Santec Corporation ("Santec"), did design, engineer, and  
10 construct the wastewater treatment plant. The Company did conduct a competitive  
11 bid process and Santec was the lowest bidder. *See* the Direct Testimony of Jason  
12 Williamson ("Williamson DT") at 8-9. Since the Company's costs of construction  
13 were at or below what it would have incurred for construction by non-affiliated  
14 entities engaged in the business of constructing plant, I did not remove the affiliate  
15 profit.

16 **Q. DOES SANTEC PERFORM WORK FOR OTHER NON-AFFILIATED**  
17 **ENTITIES?**

18 A. Yes. *See* Williamson DT at 8.

19 **Q. HASN'T THE COMMISSION DISALLOWED CAPITALIZED AFFILIATE**  
20 **PROFIT IN RECENT CASES?**

21 A. Yes. The Commission has removed capitalized affiliate profit from plant-in-  
22 service in the past *e.g. Far West Water and Sewer Company*, Decision No. 69335  
23 (February 20, 2007), *Gold Canyon Sewer Company*, Decision No. 69664 (June 28,  
24 2007), and *Black Mountain Sewer Company*, Decision No. 69164 (December 5,  
25 2006). However, in those cases, the Commission removed capitalized affiliate  
26 profit charged by affiliates whose primary business was not construction of

1 facilities and/or the utility did not conduct a competitive bid process to support that  
2 its costs were competitively incurred. Both are present here, however, and I  
3 believe this justifies including the entire cost of constructing the plant in rate base.  
4 In fact, removal of this profit would result in an inequitable windfall to the  
5 ratepayers, which have not been harmed in any way by the work performed in  
6 Santec, at the expense of the shareholders, who have done nothing improper.

7 **Q. PLEASE CONTINUE.**

8 A. Adjustment number 2 on Schedule B-2, page 4, adjusts accumulated depreciation  
9 to reflect the re-computed amounts per the Company's B-2 plant schedule.

10 **Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON**  
11 **THE B-2 SCHEDULE REFLECT THE LAST RATE ORDER?**

12 A. No, because this is the Company's first rate case since it was granted a Certificate  
13 of Convenience and Necessity in March 2006 (Decision No. 68608) ("CCN  
14 Decision"). Consequently, there is no prior Commission determined plant-in-  
15 service or accumulated depreciation, and the starting balances of plant and  
16 accumulated depreciation in this filing are zero. Plant additions and retirements  
17 since inception have been added to and deducted from total plant shown on  
18 Schedule B-2, pages 3.1 to 3.4. Pages 3.1 to 3.4 of the schedule show the details  
19 for the accumulated depreciation through the end of the test year using the half-  
20 year convention for depreciation.

21 **Q. PLEASE CONTINUE WITH YOUR TESTIMONY REGARDING THE**  
22 **RATE BASE SCHEDULES.**

23 A. Adjustment number 3, labeled as 3a and 3b, adjusts contributions in aid of  
24 construction ("CIAC") and amortization based on additional CIAC recorded since  
25 inception using the composite depreciation rate for each year.

26 Adjustment number 4 increases deferred income taxes. The Company's

1 computation is based on the adjusted plant-in-service, accumulated depreciation,  
2 and CIAC in the instant case and the tax basis of its assets using the tax rate found  
3 on Schedule C-3.

4 **Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON**  
5 **A-1 DETERMINED?**

6 A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no  
7 adjustment for the current values of the Company's plant and property.

8 **V. INCOME STATEMENT (C SCHEDULES).**

9 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO**  
10 **THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.**

11 A. The following is a summary of adjustments shown on Schedule C-1:

12 Adjustment 1 annualizes depreciation expense. The proposed depreciation  
13 rate for each component of utility plant is shown on Schedule C-2, page 2. The  
14 depreciation rates proposed are account specific rates and are based on Staff's  
15 typical and customary rates.

16 Adjustment 2 increases the property taxes based on proposed revenues. The  
17 Company has recognized the reduction in the assessment ratio contained in A.R.S.  
18 § 42-15001, entitled "Assessed Valuation of Class One Property"). By law, the  
19 assessment ratio will be reduced through tax year 2011 to 20 percent. The  
20 Company has proposed a two-year reduction in the assessment ratio or a reduction  
21 from the 23 percent employed for the 2008 property tax year to 21 percent for  
22 2010 property tax year.

23 **Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED**  
24 **RATES?**

25 A. To determine full cash value, I used the method employed by the Arizona  
26 Department of Revenue - Centrally Valued Properties ("ADOR" or "the



1 Department"). This method determines full cash value by using twice the average  
2 of three years of revenue, plus an addition for CWIP and a deduction for the book  
3 value of transportation equipment. In the instant case, I used two times the  
4 adjusted revenues for the year ending December 31, 2008, and one year of  
5 revenues at proposed rates. The assessed value (21 percent of full cash value) was  
6 then multiplied by the property tax rate to determine adjusted property tax expense.

7 **Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?**

8 A. Yes, more than I care to cite to after nearly a decade of consistent decision-making  
9 by the Commission on this issue.

10 **Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH**  
11 **REVENUES PROPER RATE MAKING?**

12 A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new  
13 rates are sufficient to produce the authorized return on rate base. For this reason,  
14 the Commission has repeatedly approved the use of proposed revenues to  
15 determine an appropriate level of property tax expense to be recovered through  
16 rates.

17 To eliminate issues, I used the methodology approved by the Commission in  
18 Arizona-American Water Company's rate case, Decision No. 67093 (June 30,  
19 2004), where two years of adjusted test year revenues and one year of proposed  
20 revenues were used to determine full cash value. In that decision, the Commission  
21 concluded: "Staff calculated property taxes using its proposed adjusted test year  
22 revenues twice and its recommended revenues once to calculate a three year  
23 average of revenues. We agree with Staff that using only historical revenues to  
24 calculate property taxes to include in the cost of service fails to capture the effects  
25 of future revenue from new rates, and can result in an understatement or  
26 overstatement of property tax expense." Decision No. 67093 at 9-10. This is the

1 methodology the Commission has repeatedly used for water and sewer utilities, to  
2 the best of my knowledge, without exception over the last nearly 10 years now.

3 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME**  
4 **STATEMENT ADJUSTMENTS.**

5 A. Adjustment 3 shows the rate case expense. The Company estimates rate case  
6 expense of \$175,000 to be recovered over three years because it believes a three-  
7 year cycle for future rate cases is reasonable given this utility's circumstances.

8 **Q. DO YOU BELIEVE \$175,000 IS A REASONABLE AMOUNT OF RATE**  
9 **CASE EXPENSE GIVEN THE REQUESTED INCREASE IN REVENUE?**

10 A. Yes. To begin with, the Commission ordered this case. Also, the size of the  
11 increase does not necessarily mean that the case will be less complicated.  
12 Coronado is a Class B utility and I fully expect that there will be discovery by the  
13 other parties, five rounds of prefiled testimony, hearings and post-hearing briefing,  
14 followed by a ROO and an appearance before the Commission and compliance  
15 with the final order. And this is just the basic rate case process. As Mr.  
16 Williamson explains in his testimony, Coronado's short history has been fraught  
17 with Commission-controversy. I can predict, without hesitation, that controversy  
18 and public involvement will mean higher rate case expense. In fact, I am likely  
19 being conservative—if things get knotty, the request of \$175,000 is likely going to  
20 be less than is actually incurred. Therefore, it is a reasonable estimate.

21 **Q. WHY DO YOU REFER TO THE REQUESTED RATE CASE EXPENSE AS**  
22 **AN ESTIMATE?**

23 A. Because I can only consider the foreseeable. If things turn out more complicated  
24 than anticipated, the Company may modify its request to account for that increased  
25 expense. Conversely, if the case proceeds and rate case expense is lower than  
26 expected, Coronado should make an appropriate adjustment downward. This way,

1 whatever the final amount incurred and requested, the Commission can, and  
2 respectfully should, ensure that the Company recovers most if not all of its rate  
3 case expense in this case. I doubt, if it gets expensive, it will be Coronado's doing.

4 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME**  
5 **STATEMENT ADJUSTMENTS?**

6 A. Adjustment 4 removes BHP Copper subsidization revenues from a prior year  
7 (2007) that were recorded in 2008. This subsidization allowed the Commission to  
8 add another year to the rate phase-in, but it was terminated roughly 24 months ago.  
9 CCN Decision at 15-16.

10 Adjustment 5 annualizes revenues to the year-end number of customers.  
11 The annualization of revenues is based on the number of customers at the end of  
12 the test year, compared to the actual number of customers during each month of  
13 the test year. Average revenues by month are computed for the test year. The  
14 average revenues are then multiplied by the increase (or decrease) in number of  
15 customers for each month of the test year.

16 Adjustment 6 annualizes chemicals expense based on the additional gallons  
17 treated from annualizing revenues to the year-end number of customers.

18 Adjustment 7 reflects the increase in annual purchased power cost to APS.

19 Adjustment 8 annualizes purchased power expense based on the additional  
20 gallons treated from annualizing revenues to the year-end number of customers.

21 Adjustment 9 reduces contractual services costs for affiliate profit.

22 Adjustment 10 increases salaries and wages expense reflecting operational  
23 changes that occurred since the end of the test year.

24 Adjustment 11 reduces contractual services reflecting operational changes  
25 that occurred after the end of the test year.

26 Adjustment 12 removes other income and expense to eliminate their impact

on income taxes.

Adjustment 13 synchronizes interest expense with rate base.

Adjustment 14 reflects the income taxes at proposed rates.

There are no further adjustments to the Income Statement at this time.

**VI. RATE DESIGN (H SCHEDULES).**

**Q. WHAT ARE THE COMPANY'S PRESENT RATES?**

A. The Company's present rates are:

Monthly Customer Charges

Residential	\$46.50
Commercial	\$ 7.50
Mobile Home – Winter Only	\$ 7.50
Mobile Home – Summer Only (per occupied space)	\$31.86
School	\$ 7.50

Volumetric Rates (per 100 gallons of water use)

Commercial	\$0.9800
Mobile Home Park (Winter only)	\$0.5700
School	\$0.3122

In addition, the price for reclaimed (non-potable) water is \$48.88 per acre-foot or \$0.15 per 1,000 gallons.

**Q. WHAT ARE THE PROPOSED RATES?**

A. The Company's proposed rates are:

Monthly Customer Charges

Residential	\$54.73
Commercial	\$ 8.83

Mobile Home – Winter Only	\$ 8.83
Mobile Home – Summer Only (per occupied space)	\$37.50
School	\$ 8.83

Volumetric Rates (per 100 gallons of water use)

Commercial	\$1.1535
Mobile Home Park (Winter only)	\$0.6709
School	\$0.3675

In addition, the proposed charge for reclaimed (non-potable) water is \$65.17 per acre-foot or \$0.20 per 1,000 gallons.

**Q. IS THE COMPANY PROPOSING A LOW INCOME TARIFF?**

A. Yes, a copy is included with the Company's application at Attachment 1. The proposed low income tariff is modeled after one I recently proposed for Chaparral City Water Company (Docket W-02113A-07-0551) and Litchfield Park Service Company (Docket Nos. SW-01428A-09-0103 and W-01427A-09-0104), which in turn, was modeled after one used in California by Golden States Water Company, the operating water utility for American States Water.

**Q. HOW DOES THE LOW INCOME TARIFF WORK?**

A. Residential customers meeting the qualifications as set forth in the proposed tariff would receive a 25 percent discount off their sewer bill. The primary criteria would be based on the combined gross annual income of all persons living in the household. For example, as shown on the proposed tariff, a 4-person household with a total gross annual income of less than or equal to \$21,200, which amount is 100% of the 2008 federal poverty level, would meet the criteria. As defined in the proposed tariff, gross annual household income means all money and non-cash benefits, available for living expenses, from all sources, both taxable and non-

1 taxable, for all people who live in the home.

2 **Q. HOW WOULD A CUSTOMER SIGN UP FOR THE PROGRAM?**

3 A. By completing an application and eligibility declaration and submitting proof of  
4 income to the Company. The form of the application and eligibility declaration  
5 would be approved by the Commission.

6 **Q. WOULD THE GROSS ANNUAL INCOME LIMITS BE UPDATED**  
7 **ANNUALLY?**

8 A. Yes. Federal poverty guidelines are updated annually and published in the Federal  
9 Register (January). Accordingly, the Company would update its gross annual  
10 household income limits annually.

11 **Q. HOW WOULD CUSTOMERS BE MADE AWARE OF THE LOW INCOME**  
12 **TARIFF PROGRAM?**

13 A. Providing customers with information about the low income tariff program will be  
14 an ongoing process. Notice of the new rates implemented in this rate case would  
15 include information about the low income tariff. In addition, new customers would  
16 be made aware of the program upon signing up for new service.

17 **Q. HOW WOULD THE COMPANY TRACK THE PROGRAM COSTS AND**  
18 **PROGRAM COST RECOVERY?**

19 A. The program costs (the discounts given to participants plus a 10% fee for  
20 administration and carrying costs) would be recovered from non-participants via a  
21 commodity surcharge. The Company would maintain a balancing account to keep  
22 track of the program costs and the collections made from non-participants. The  
23 surcharge would be computed semi-annually based on the prior period costs and  
24 collections.

25 **Q. WOULD THE PROGRAM COSTS BE RECOVERED FROM NON-**  
26 **PARTICIPANTS FROM ALL CUSTOMER CLASSES?**

1 A. No. Since only residential customers can participate, program costs will be  
2 recovered from the residential non-participants, and not from other customer  
3 classes.

4 **Q. WHAT WOULD BE THE CARRYING COST RATE?**

5 A. The authorized rate of return in the instant case.

6 **Q. WHEN WOULD THE COMMODITY SURCHARGE TO NON-**  
7 **PARTICIPANTS BEGIN?**

8 A. As soon as possible after the end of the first six-month period. In order to  
9 determine a basis for the first surcharge computation, Coronado will track the  
10 program costs for six months. Upon completion of the 6-month period, the  
11 Company will compute a surcharge intended to collect the prior period's program  
12 costs over the next six months. Accordingly, the first six-month surcharge will be  
13 computed by dividing the program costs by the total number of bills to residential  
14 non-participants during the six-month period. Subsequently, the program costs and  
15 surcharge collections will be accumulated in the balancing account for the next six-  
16 month period. The next six month's surcharge will be computed by dividing the  
17 balancing account balance by the total number of bills to residential non-  
18 participants during most recent six-month period.

19 **Q. CAN YOU PLEASE PROVIDE AN ILLUSTRATION?**

20 A. Yes. Assume that during the first six months of the program \$5,000 in costs are  
21 incurred (including the administrative fee and carrying costs) and 7,000 bills were  
22 issued to non-participants during that six-month period. The commodity surcharge  
23 for the second six month period would be \$0.71 per residential bill (\$5,000 divided  
24 by 7,000 bills). If during the second six-month period, \$6,000 in program costs are  
25 incurred, \$5,000 is recovered via the surcharge to residential non-participants, and  
26 6,900 bills were issued to residential non-participants, then the commodity

1 surcharge for the third six-month period would be \$1.01 per residential bill (\$6,000  
2 program costs for first 6 months less \$5,000 in surcharge collections plus \$6,000  
3 programs costs for the second 6 months divided by 6,900 bills).

4 **Q. CORONADO IS PROPOSING TO RESET THE SURCHARGE AFTER**  
5 **EVERY SIX MONTHS?**

6 A. That is correct. Unlike Chaparral City, for example, which has well over 11,000  
7 residential customers living in a fairly affluent area, Coronado has approximately  
8 1,250 residential customers, many of whom have suffered financially since the  
9 mine closed. The bottom line is Coronado wants to propose a low income tariff,  
10 but they cannot afford to carry a significant number of customers that may qualify  
11 for the low income tariff for a whole year. The potential for a cash flow problem  
12 must be considered.

13 **Q. WOULD THE COMPANY BE WILLING TO SUBMIT REPORTS TO THE**  
14 **COMMISSION?**

15 A. Yes. Coronado expects that it will need to submit an annual report showing the  
16 number of participants for each six-month period during the year, the discounts  
17 given to participants, administration fee and carrying costs, and the collections  
18 made from non-participants through the surcharge. The Company would also  
19 report the balance of the low income balancing accounts and show a computation  
20 of the next six-month commodity surcharge and submit updated gross annual  
21 income guidelines as updated by the federal government.

22 **Q. WOULD THE SURCHARGE APPEAR SEPARATELY ON CUSTOMER**  
23 **BILLS?**

24 A. Yes. The surcharge would be identified as "Low Income Assistance Charge."

25 **Q. ARE THERE ANY PROPOSED CHANGES TO THE COMPANY'S**  
26 **MISCELLANEOUS SERVICE CHARGES?**



1 A. Yes, as explained by Mr. Williamson, the Company seeks to modify the cost of  
2 reconnection after non-payment. Williamson DT at 10-11.

3 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

4 A. Yes.

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26

# **ATTACHMENT 1**

**Exhibit A**  
**RESUME OF THOMAS J. BOURASSA, CPA**

**EDUCATIONAL BACKGROUND**

B.S. Northern Arizona University Chemistry/Accounting (1980)  
M.B.A. University of Phoenix with Emphasis in Finance (1991)  
C.P.A. State of Arizona (1995)

**EMPLOYMENT EXPERIENCE**

1995 – Present	<p>CPA - Self Employed</p> <p>Consultant to utilities on regulatory matters including all aspects of rate applications (rate base, income statement, cost of capital, cost of service, and rate design), rate reviews, certificates of convenience and necessity (CC&amp;N), CC&amp;N extensions, financing applications, accounting order applications, and off-site facilities hook-up fee applications. Provide expert testimony as required.</p> <p>Consult on various aspects of business, financial and accounting matters including best business practices, generally accepted accounting principles, project analysis, cash flow analysis, regulatory treatment of certain expenditures and investments, business valuations, and rate reviews.</p>
1992-1995	<p>Employed by High-Tech Institute, Phoenix, Arizona as Controller and C.F.O.</p>
1989-1992	<p>Employed by Alta Technical School, a division of University of Phoenix as Division Controller.</p>
1985-1989	<p>Employed by M.L.R. Builders, Tampa and Pensacola, Florida as Operations/Accounting Manager</p>
1982-1985	<p>Employed by and part owner in Area Sand and Clay Company, Pensacola, Florida.</p>
1981-1982	<p>Employed by Purdue University, West Lafayette, Indiana as Teaching Assistant.</p>

## SUMMARY OF REGULATORY WORK EXPERIENCE AS SELF EMPLOYED CONSULTANT

<u>COMPANY/CLIENT</u>	<u>FUNCTION</u>
Rio Rico Utilities, Inc Docket WS-02676A-09-0257	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Litchfield park Service Company Docket SW-01428A-09-0103 W-01428A-09-0104	Permanent Rate Application – Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Valley Utilities Docket W-01412A-08-0586	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Black Mountain Sewer Company Docket SW-02361A-08-0609	Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Far West Water and Sewer Company Docket WS-03478A-08-0608	Interim Rate Application (Emergency Rates)
Farmers Water Company Docket W-01654A-08-0502	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.
Far West Water and Sewer Company Docket WS-03478A-08-0454	Permanent Rate Application. Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design and Cost of Capital.
Far West Water and Sewer Company Docket WS-03478A-07-0442	Financing Application. Prepare schedules to support application.
Ridgeline Water Company, LLC	Certificate of Convenience and Necessity

**COMPANY/CLIENT**

Docket W-20589A-08-173

Sacramento Utilities, Inc.  
Docket SW-20576A-08-0067

Johnson Utilities  
Docket WS-02987A-08-0180

Orange Grove Water Company  
Docket W-02237A-08-0455

Oak Creek Water No.1  
Docket W-01392A-07-0679

ICR Water Users Association  
Docket W-02824-07-0388

H2O, Inc  
Docket W-02234A-07-0550

Chaparral City Water Company  
Docket W-02113A-07-0551

Valley Utilities  
Docket W-01412A-07-0561

Valley Utilities

**FUNCTION**

– Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.

Certificate of Convenience and Necessity – Wastewater. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.

Permanent Rate Application. Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design and Cost of Capital.

Permanent Rate Application. Prepared schedules on Plant, Income Statement, Revenue Requirement, and Rate Design.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Financing Application. Prepare schedules to support application.

Emergency Rate Application. Prepare

**COMPANY/CLIENT**

Docket W-01412A-07-280

Valley Utilities

Docket W-01412A-07-0278

Litchfield Park Service Company

Docket W-01427A-06-0807

Golden Shores Water Company

Docket W-01815A-07-0117

Diablo Village Water Company

Docket W-02309A-07-0140

Diablo Village Water Company

Docket W-02309A-07-0399

Sahuarita Water Company

(Rancho Sahuarita Water Co.)

Docket W-03718A-07-0687

Utility Source, L.L.C.

Docket WS-04235A-06-0303

Goodman Water Company

Docket W-02500A-06-0281

**FUNCTION**

schedules to support application.

Accounting Order. Assist in preparing definition and scope of costs for deferral for future regulatory consideration and treatment.

Accounting Order. Assist in preparing definition and scope of costs for deferral for future regulatory consideration and treatment.

Permanent Rate Application. Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Off-site facilities hook-up fee application. Prepare schedules to support application.

Permanent Rate Application (Class C). Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Extension Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.

Permanent Rate Application- Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Permanent Rate Application (Class C). Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Cost of Capital.

**COMPANY/CLIENT**

Links at Coyote Wash Utilities  
Docket SW-04210A-06-0220

New River Utilities  
Docket W-0173A-06-0171

Johnson Utilities  
Docket WS-02987A-04-0501  
Docket WS-02987A-04-0177

Bachmann Springs Utility  
Docket WS-03953A-07-0073

Avra Water Cooperative  
Docket W-02126A-06-0234

Gold Canyon Sewer Company  
Docket SW-025191A-06-0015

Far West Water and Sewer Company  
Docket WS-03478A-05-0801

Black Mountain Sewer Company  
Docket SW-02361A-05-0657

Balterra Sewer Company

**FUNCTION**

Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Extension Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.

Extension of Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Certificate of Convenience and Necessity

**COMPANY/CLIENT**

Docket SW-02304A-05-0586

Community Water Company of Green  
Valley

Docket W-02304A-05-0830

McClain Water Systems  
Northern Sunrise Water  
Southern Sunrise Water  
Docket W-020453A-06-0251

Valley Utilities Water Company  
Docket W-01412A-04-0376

Valley Utilities Water Company  
Docket W-01412A-04-0376

Beardsley Water Company  
Docket W-02074A-04-0358

Pine Water Company, Inc.  
Docket W-03512A-03-0279

Chaparral City Water Company  
Docket W-02113A-04-0616

Tierra Linda Home Owners Association  
Docket W-0423A-04-0075

**FUNCTION**

– Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Off-site facilities hook-up fee application. Prepare schedules to support application.

Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Rate Design.

Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

Interim and Permanent Rate Application, Financing Application - Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Cost of Capital, and Rate Design.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, and Income Statement. Assisted in preparation Rate Design.

Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial



**COMPANY/CLIENT****FUNCTION**

rate design.

Diamond Ventures - Red Rock Utilities  
Docket WS-04245A-04-0184

Certificate of Convenience and Necessity – Water and Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Arizona-American Water Company, Inc.  
Docket WS-01303A-02-0867  
Docket WS-01303A-02-0868  
Docket WS-01303A-02-0869  
Docket WS-01303A-02-0870  
Docket WS-01303A-02-0908

Permanent Rate Application Water and Sewer (10 divisions). Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Rate Design.

Bella Vista Water Company, Inc.  
Docket W-02465A-01-0776

Permanent Rate Application - Water. Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Cost of Capital and Rate Design.

Green Valley Water Company  
Docket (2000 Not Filed)

Permanent Rate Application. Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Cost of Capital and Rate Design.

Gold Canyon Sewer Company  
Docket SW-02519A-00-0638

Permanent Rate Application - Sewer. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.

Rio Verde Utilities, Inc.  
Docket WS-02156A-00-0321

Permanent Rate Application – Water and Sewer. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.

Livco Water Company

Permanent Rate Application – Water.

**COMPANY/CLIENT**

Livco Sewer Company  
Docket SW-02563A-05-0820

Livco Water Company  
Docket SW-02563A-07-0506

Cave Creek Sewer Company

Avra Water Cooperative  
Docket W-02126A-00-0269

Town of Oro Valley

Far West Water Company  
Docket WS-03478A-99-0144

MHC Operating Limited Partnership  
Sedona Venture Wastewater  
Docket W-

Vail Water Company  
Docket W-01651B-99-0406

E&T Water Company  
Docket W-01409A-95-0440

New River Utility  
Docket W-01737A-99-0633

**FUNCTION**

Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

*Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.*

Revenue Requirement, Rate Adjustment and Rate Design - Sewer.

Permanent Rate Application – Water. Assisted in preparation of Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Revenue Requirements, Water Rate Adjustments and Rate Design.

Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Income Statement, Revenue Requirement, Lead-Lag Study, Cost of Capital, and Rate Design.

Permanent Rate Application – Sewer. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

Permanent Rate Application. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

**COMPANY/CLIENT**

Golden Shores Water  
Docket W-01815A-98-0645

Ponderosa Utility Company  
Docket W-01717A-99-0572

Chaparral City Water Company  
Docket (1999 Not Filed)

**FUNCTION**

Permanent Rate Application – Water.  
Assisted in preparation of schedules for  
Rate Base, Plant, Income Statement, and  
Rate Design.

Permanent Rate Application – Water.  
Assisted in preparation of schedules for  
Rate Base, Plant, Income Statement, and  
Rate Design.

Permanent Rate Application - Water.  
Prepared schedules and testimony on Rate  
Base, Plant, Revenue Requirement, and  
Income Statement. Assisted in preparation  
of Cost of Capital and Rate Design.

# **SCHEDULES**

## **A-C, E, F, H**

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Schedule A-1  
Page 1  
Witness: Bourassa

Line

No.

1	Fair Value Rate Base	\$	3,536,648
2			
3	Adjusted Operating Income		154,497
4			
5	Current Rate of Return		4.37%
6			
7	Required Operating Income	\$	260,297
8			
9	Required Rate of Return on Fair Value Rate Base		7.36%
10			
11	Operating Income Deficiency	\$	105,800
12			
13	Gross Revenue Conversion Factor		1.4792
14			
15	Increase in Gross Revenue Revenue Requirement	\$	156,498
16			
17	Test Year Revenues	\$	883,530
18	Increase in Gross Revenue Revenue Requirement	\$	156,498
19	Proposed Revenue Requirement	\$	1,040,028
20	% Increase		17.71%

21					
22	<b>Customer</b>	<b>Present</b>	<b>Proposed</b>	<b>Dollar</b>	<b>Percent</b>
23	<b>Classification</b>	<b>Rates</b>	<b>Rates</b>	<b>Increase</b>	<b>Increase</b>
24					
25					
26	Residential	\$ 693,176	\$ 815,868	122,692	17.70%
27	Commercial (Standard Rate)	60,805	71,568	10,763	17.70%
28	Commercial (Special Rate)	100,605	118,412	17,807	17.70%
29	Effluent Sales	11,122	14,829	3,707	33.33%
30	School	9,121	10,735	1,614	17.70%
31	Annualization	(6,033)	(7,101)	(1,068)	17.70%
32					
33	<b>Subtotal</b>	<b>\$ 868,795</b>	<b>\$ 1,024,310</b>	<b>\$ 155,515</b>	<b>17.90%</b>
34					
35	Other Wastewater Revenues	15,218	15,218	-	0.00%
36	Reconciling Amount H-1 to C-1	(483)	500	983	-203.52%
37					
38	<b>Total of Water Revenues</b>	<b>\$ 883,530</b>	<b>\$ 1,040,028</b>	<b>\$ 156,498</b>	<b>17.71%</b>

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SUPPORTING SCHEDULES:

B-1  
C-1  
C-3  
H-1

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Summary of Results of Operations

Exhibit  
Schedule A-2  
Page 1  
Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2006	12/31/2007	Actual 12/31/2008	Adjusted 12/31/2008	Present Rates 12/31/2009	Proposed Rates 12/31/2009
1	Gross Revenues	\$ 349,270	\$ 703,330	\$ 899,226	\$ 883,530	\$ 883,530	\$ 1,040,028
2							
3	Revenue Deductions and	236,227	457,787	691,411	729,033	729,033	779,731
4	Operating Expenses						
5							
6	Operating Income	\$ 113,043	\$ 245,543	\$ 207,815	\$ 154,497	\$ 154,497	\$ 260,297
7							
8	Other Income and	-	625	2,836	-	-	-
9	Deductions						
10							
11	Interest Expense	(80,590)	(182,198)	(198,381)	(155,981)	(155,981)	(155,981)
12							
13	Net Income	\$ 32,453	\$ 63,970	\$ 12,270	\$ (1,484)	\$ (1,484)	\$ 104,316
14							
15	Earned Per Average						
16	Common Share	43.27	85.29	16.36	(1.98)	(1.98)	139.09
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	0.57%	1.35%	0.27%	-0.03%	-0.03%	2.27%
25							
26	Return on Year End						
27	Capital	0.66%	1.39%	0.27%	-0.03%	-0.03%	2.28%
28							
29	Return on Average						
30	Common Equity	6.61%	6.18%	1.14%	-0.14%	-0.14%	9.26%
31							
32	Return on Year End						
33	Common Equity	3.31%	5.89%	1.14%	-0.14%	-0.14%	8.85%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	2.08	1.44	1.02	0.96	0.96	1.93
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	1.40	1.35	1.06	1.35	1.35	1.62
41							
42							

SUPPORTING SCHEDULES

C-1  
E-2  
F-1

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Summary of Capital Structure

Exhibit  
Schedule A-3  
Page 1  
Witness: Bourassa

Line No.		Prior Years Ended		Test Year	Projected Year
	Description:	12/31/2006	12/31/2007	12/31/2008	12/31/2009
1					
2					
3	Long-Term Debt	2,650,000	2,650,000	2,575,000	2,495,000
4					
5	Total Debt	\$ 2,650,000	\$ 2,650,000	\$ 2,575,000	\$ 2,495,000
6					
7					
8	Preferred Stock	570,000	570,000	570,000	570,000
9					
10	Common Equity	981,797	1,086,788	1,074,024	1,178,340
11					
12					
13	Total Capital & Debt	\$ 4,201,797	\$ 4,306,788	\$ 4,219,024	\$ 4,243,340
14					
15					
16	Capitalization Ratios:				
17					
18	Long-Term Debt	63.07%	61.53%	61.03%	58.80%
19					
20	Total Debt	63.07%	61.53%	61.03%	58.80%
21					
22					
23	Preferred Stock	13.57%	13.23%	13.51%	13.43%
24					
25	Common Equity	23.37%	25.23%	25.46%	27.77%
26					
27					
28	Total Capital	86.43%	86.77%	86.49%	86.57%
29					
30					
31	Weighted Cost of				
32	Senior Capital	4.82%	4.71%	4.69%	4.55%
33					
34					
35					
36					
37					
38					
39	<u>SUPPORTING SCHEDULES:</u>				
40	E-1				
41	D-1				

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Construction Expenditures  
and Gross Utility Plant in Service

Exhibit  
Schedule A-4  
Page 1  
Witness: Bourassa

Line No.		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
2	Prior Year Ended 12/31/2006	2,459,162	2,459,162	2,459,162
3				
4	Prior Year Ended 12/31/2007	1,823,193	1,823,193	4,282,324
5				
6	Test Year Ended 12/31/2008	146,117	146,117	4,428,471
7				
8	Projected Year Ended 12/31/2009	30,000	30,000	4,458,471
9				
10				
11				
12				
13	<u>SUPPORTING SCHEDULES:</u>			
14	B-2			
15	E-5			
16	F-3			
17				
18				



**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Summary Statements of Cash Flows

Exhibit  
Schedule A-5  
Page 1  
Witness: Bourassa

Line  
No.

	Prior Year Ended <u>12/31/2006</u>	Prior Year Ended <u>12/31/2007</u>	Test Year Ended <u>12/31/2008</u>	Projected Year Present Rates <u>12/31/2009</u>	Projected Rates <u>12/31/2009</u>
5 Cash Flows from Operating Activities					
6 Net Income	\$ 95,509	\$ 104,991	\$ 19,206	\$ (1,484)	\$ 104,316
7 Adjustments to reconcile net income to net cash					
8 provided by operating activities:					
9 Depreciation and Amortization	53,919	110,482	180,888	186,095	186,095
10 Adjustments to Depreciation/Amortization	-	(4,740)	(24,773)		
11 Other	-	-	-		
12 Changes in Certain Assets and Liabilities:					
13 Accounts Receivable	(20,167)	(62,070)	(24,735)		
14 Unbilled Revenues	-	-	-		
15 Materials and Supplies Inventory	-	-	-		
16 Prepaid Expenses	-	(790)	-		
17 Deferred Charges	-	(32,996)	9,518		
18 Accounts Payable	580,133	(373,630)	95,593		
19 Intercompany payable	-	-	-		
20 Customer Deposits	191,008	(156,668)	(14,531)		
21 Intercompany taxes receivable and taxes payable	-	(36,744)	(25,108)		
22 Other assets and liabilities	(310,270)	60,857	312		
23 Deferred Debits and Credits	50,286	(137,964)	4,739		
24 Net Cash Flow provided by Operating Activities	\$ 640,418	\$ (529,272)	\$ 221,109	\$ 184,611	\$ 290,411
25 Cash Flow From Investing Activities:					
26 Capital Expenditures	(2,505,183)	(1,724,718)	(146,147)	(30,000)	(30,000)
27 Plant Held for Future Use	-	-	-		
28 Changes in debt reserve fund	-	-	-		
29 Net Cash Flows from Investing Activities	#####	\$ (1,724,718)	\$ (146,147)	\$ (30,000)	\$ (30,000)
30 Cash Flow From Financing Activities					
31 Change in Restricted Cash	-	-	-		
32 Change in net amounts due to parent and affiliates	-	-	-		
33 Receipt of advances for and contributions in aid of construction	295,676	307,525	-	-	-
34 Refunds for advances for construction	-	-	-	-	-
35 Repayments of Long-Term Debt	2,650,000	-	(75,000)	(80,000)	(80,000)
36 Dividends Paid - Common	-	-	-	-	-
37 Dividends Paid - Preferred	-	-	-	-	-
38 Deferred Financing Costs	-	-	-	-	-
39 Paid in Capital	886,288	-	-	-	-
40 Net Cash Flows Provided by Financing Activities	\$ 3,831,964	\$ 307,525	\$ (75,000)	\$ (80,000)	\$ (80,000)
41 Increase(decrease) in Cash and Cash Equivalents	1,967,199	(1,946,465)	(38)	74,611	180,411
42 Cash and Cash Equivalents at Beginning of Year	-	1,967,199	20,734	20,696	20,696
43 Cash and Cash Equivalents at End of Year	\$ 1,967,199	\$ 20,734	\$ 20,696	\$ 95,307	\$ 201,107

SUPPORTING SCHEDULES:

45 E-3  
46 F-2  
47

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Summary of Rate Base

Exhibit  
Schedule B-1  
Page 1  
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 4,428,471	\$ 4,428,471
3	Less: Accumulated Depreciation	<u>398,932</u>	<u>398,932</u>
4			
5	Net Utility Plant in Service	\$ 4,029,539	\$ 4,029,539
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	-	-
10	Contributions in Aid of		
11	Construction	603,201	603,201
12	Accumulated Amortization of CIAC	(9,755)	(9,755)
13			
14	Customer Meter Deposits	19,809	19,809
15	Deferred Income Taxes & Credits	(37,425)	(37,425)
16		-	-
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	82,938	82,938
22	Deferred Regulatory Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	<u>\$ 3,536,648</u>	<u>\$ 3,536,648</u>
27			
28			
29			
30	<u>SUPPORTING SCHEDULES:</u>		
31	B-2		
32	B-3		
33	B-5		
34	E-1		
35			

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Schedule B-2  
Page 1  
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 4,428,471	-	\$ 4,428,471
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	394,272	4,660	398,932
7				
8				
9	Net Utility Plant			
10	in Service	\$ 4,034,199		\$ 4,029,539
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	603,201	-	603,201
18				
19	Accumulated Amortization of CIAC	(27,490)	17,735	(9,755)
20				
21	Customer Meter Deposits	19,809	-	19,809
22	Deferred Income Taxes	-	(37,425)	(37,425)
23				
24				
25	<b>Plus:</b>			
26	Unamortized Finance			
27	Charges	82,938	-	82,938
28	Deferred Regulatory Assets	-	-	-
29	Allowance for Working Capital	-	-	-
30				
31	<b>Total</b>	<b>\$ 3,521,617</b>		<b>\$ 3,536,648</b>

SUPPORTING SCHEDULES:

B-2, pages 1-7

E-1

RECAP SCHEDULES:

B-1

**Coronado Utilities, Inc.**

Test Year Ended December 31, 2008

Original Cost Rate Base Proforma Adjustments

Exhibit  
Schedule B-2  
Page 2

Witness: Bourassa

Line No.		<u>Proforma Adjustments</u>				Adjusted at end of Test Year
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	
		Actual at End of Test Year	Plant Adjustments	Accum. Depr.	Deferred Income Taxes	
1	Gross Utility					
2	Plant in Service	\$ 4,428,471	-			\$ 4,428,471
3						
4	<b>Less:</b>					
5	Accumulated					
6	Depreciation	394,272		4,660		398,932
7						
8						
9	Net Utility Plant					
10	in Service	\$ 4,034,199	\$ -	\$ (4,660)	\$ -	\$ 4,029,539
11						
12	<b>Less:</b>					
13	Advances in Aid of					
14	Construction	-				-
15						
16	Contributions in Aid of					
17	Construction (CIAC)	603,201		-		603,201
18						
19	Accumulated Amort of CIAC	(27,490)		17,735		(9,755)
20						
21	Customer Meter Deposits	19,809				19,809
22	Deferred Income Taxes	-			-37,425	(37,425)
23						
24						
25	<b>Plus:</b>					
26	Unamortized Finance					
27	Charges	82,938				82,938
28	Deferred Reg. Assets	-				-
29	Allowance for Working Capital	-				-
30						
31	<b>Total</b>	<u>\$ 3,521,617</u>	<u>\$ -</u>	<u>\$ (4,660)</u>	<u>\$ (17,735)</u>	<u>\$ 3,536,648</u>
32						
33						
34						

SUPPORTING SCHEDULES:

B-2, pages 3-6

E-1

RECAP SCHEDULES:

B-1

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1

Line No.	Plant-in-Service	Acct.	No.	Description	Per Books Original Cost	A Difference to Computed Balance <sup>1</sup>	Adjustments				Adjusted Original Cost
							B	C	D	E	
							Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	
1	Plant-in-Service				5,194	-					5,194
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
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41											
42											
43											
44											
45											
46											

<sup>1</sup> Computed Balance as shown on B-2, page 3.4.

**Coronado Utilities, Inc.**  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.1

Account No.	Description	Deprec. Rate	Plant At 12/31/2005	2005 Accum. Depr.	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	2006 Salvage A/D Only	2006 Plant Balance	2006 Deprec.
351	Organization	0.00%	-	-	5,194	-	5,194	-	-	5,194	-
352	Franchises	0.00%	-	-	-	-	-	-	-	-	-
353	Land	0.00%	-	-	249,999	-	249,999	-	-	249,999	-
354	Structures & Improvements	3.33%	-	-	-	-	-	-	-	-	-
355	Power Generation	5.00%	-	-	-	-	-	-	-	-	-
360	Collection Sewer Forced	2.00%	-	-	-	-	-	-	-	-	-
361	Collection Sewers Gravity	2.00%	-	-	-	-	-	-	-	-	-
362	Special Collecting Structures	2.00%	-	-	1,600	-	1,600	-	-	1,600	16
363	Customer Services	2.00%	-	-	-	-	-	-	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-	-
365	Flow Measuring Installation	10.00%	-	-	-	-	-	-	-	-	-
366	Reuse Services	2.00%	-	-	-	-	-	-	-	-	-
367	Reuse Meters And Installation	8.33%	-	-	-	-	-	-	-	-	-
370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-	-
371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-	-
374	Reuse Distribution Reservoirs	2.50%	-	-	-	-	-	-	-	-	-
375	Reuse Trans. and Dist. System	2.50%	-	-	1,753,197	-	1,753,197	-	-	1,753,197	43,830
380	Treatment & Disposal Equipment	5.00%	-	-	-	-	-	-	-	-	-
381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	3.33%	-	-	283,058	-	283,058	-	-	283,058	4,713
389	Other Sewer Plant & Equipment	6.67%	-	-	113,691	-	113,691	-	-	113,691	3,792
390	Office Furniture & Equipment	6.67%	-	-	-	-	-	-	-	-	-
390.1	Computers and Software	20.00%	-	-	-	-	-	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-	-
392	Stores Equipment	4.00%	-	-	-	-	-	-	-	-	-
393	Tools, Shop And Garage Equip	5.00%	-	-	-	-	-	-	-	-	-
394	Laboratory Equip	10.00%	-	-	-	-	-	-	-	-	-
396	Communication Equip	10.00%	-	-	-	-	-	-	-	-	-
398	Other Tangible Plant	4.00%	-	-	52,423	-	52,423	-	-	52,423	1,048
Plant Held for Future Use											
TOTAL WASTEWATER PLANT					2,459,162	-	2,459,162	-	-	2,459,162	53,399

Account No.	Description	Deprec. Rate	2007	2007	2007	2007	2007	2007	2007
			Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Salvage/Adj. A/D Only	Plant Balance	
351	Organization	0.00%			-			5,194	-
352	Franchises	0.00%			-			-	-
353	Land	0.00%		(9,999)	(9,999)			240,000	-
354	Structures & Improvements	3.33%	1,858		1,858			1,858	31
355	Power Generation	5.00%			-			-	-
360	Collection Sewer Forced	2.00%			-			-	-
361	Collection Sewers Gravity	2.00%	59,350		59,350			59,350	584
362	Special Collecting Structures	2.00%		(24)	(24)			1,576	32
363	Customer Services	2.00%			-			-	-
364	Flow Measuring Devices	10.00%			-			-	-
365	Flow Measuring Installation	10.00%			-			-	-
366	Reuse Services	2.00%			-			-	-
367	Reuse Meters And Installation	8.33%			-			-	-
370	Receiving Wells	3.33%			-			-	-
371	Pumping Equipment	12.50%			-			-	-
374	Reuse Distribution Reservoir/s	2.50%			-			-	-
375	Reuse Trans. and Dist. System	2.50%			-			-	-
380	Treatment & Disposal Equipment	5.00%	1,437,019		1,437,019			3,190,216	123,585
381	Plant Sewers	5.00%			-			-	-
382	Outfall Sewer Lines	3.33%			-			-	-
389	Other Sewer Plant & Equipment	3.33%	270,514		270,514			563,572	13,930
390	Office Furniture & Equipment	6.67%	64,475		64,475			178,166	9,733
390.1	Computers and Software	6.67%			-			-	-
391	Transportation Equipment	20.00%			-			-	-
392	Stores Equipment	4.00%			-			-	-
393	Tools, Shop And Garage Equip	5.00%			-			-	-
394	Laboratory Equip	10.00%			-			-	-
396	Communication Equip	10.00%			-			-	-
398	Other Tangible Plant	4.00%			-			52,423	2,087
					-			-	-
			1,833,216	(10,023)	1,823,193	-	-	4,282,355	150,002
Plant Held for Future Use									
TOTAL WASTEWATER PLANT									

Coronado Utilities, Inc.  
Plant Additions and Retirements

Exhibit  
Schedule B-2  
Page 3.3

Account No.	Description	Deprec. Rate	2008 Plant Additions	2008 Plant Adjustments	2008 Adjusted Plant Additions	2008 Plant Retirements	2008 Salvage A/D Only	2008 Plant Balance	2008 Deprec.
351	Organization	0.00%			-			5,194	-
352	Franchises	0.00%			-			-	-
353	Land	0.00%	75,001		75,001			315,001	-
354	Structures & Improvements	3.33%			-			1,856	62
355	Power Generation	5.00%			-			-	-
360	Collection Sewer Forced	2.00%			-			-	-
361	Collection Sewers Gravity	2.00%			-			-	-
362	Special Collecting Structures	2.00%			-			59,350	1,187
363	Customer Services	2.00%			-			1,576	32
364	Flow Measuring Devices	10.00%			-			-	-
365	Flow Measuring Installation	10.00%			-			-	-
366	Reuse Services	2.00%			-			-	-
367	Reuse Meters And Installation	8.33%			-			-	-
370	Receiving Wells	3.33%	16,133		16,133			16,133	269
371	Pumping Equipment	12.50%	15,223		15,223			15,223	951
374	Reuse Distribution Reservoirs	2.50%			-			-	-
375	Reuse Trans. and Dist. System	2.50%			-			-	-
380	Treatment & Disposal Equipment	5.00%	53,159		53,159			3,243,375	160,840
381	Plant Sewers	5.00%			-			-	-
382	Outfall Sewer Lines	3.33%			-			-	-
389	Other Sewer Plant & Equipment	6.67%			-			-	-
390	Office Furniture & Equipment	6.67%		(13,367)	(13,367)			540,205	18,211
390.1	Computers and Software	20.00%		(31)	(31)			178,135	11,883
391	Transportation Equipment	4.00%			-			-	-
392	Stores Equipment	5.00%			-			-	-
393	Tools, Shop And Garage Equip	10.00%			-			-	-
394	Laboratory Equip	10.00%			-			-	-
396	Communication Equip	4.00%			-			-	-
398	Other Tangible Plant				-			52,423	2,097
									-
Plant Held for Future Use									-
TOTAL WASTEWATER PLANT									195,531
			159,515	(13,399)	146,117	-	-	4,428,472	195,531



Account No.	Description	Year End Accumulated Depreciation by Account			
		Deprec. Rate	2005	2006	2007
					2008
351	Organization	0.00%	-	-	-
352	Franchises	0.00%	-	-	-
353	Land	0.00%	-	-	-
354	Structures & Improvements	3.33%	-	31	93
355	Power Generation	5.00%	-	-	-
360	Collection Sewer Forced	2.00%	-	-	-
361	Collection Sewers Gravity	2.00%	-	594	1,781
362	Special Collecting Structures	2.00%	-	48	79
363	Customer Services	2.00%	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-
365	Flow Measuring Installation	10.00%	-	-	-
366	Reuse Services	2.00%	-	-	-
367	Reuse Meters And Installation	8.33%	-	-	-
370	Receiving Wells	3.33%	-	-	269
371	Pumping Equipment	12.50%	-	-	951
374	Reuse Distribution Reservoirs	2.50%	-	-	-
375	Reuse Trans. and Dist. System	2.50%	-	-	-
380	Treatment & Disposal Equipment	5.00%	-	43,830	167,415
381	Plant Sewers	5.00%	-	-	-
382	Outfall Sewer Lines	3.33%	-	-	-
389	Other Sewer Plant & Equipment	6.67%	-	4,713	18,643
390	Office Furniture & Equipment	6.67%	-	3,792	13,525
390.1	Computers and Software	20.00%	-	-	-
391	Transportation Equipment	20.00%	-	-	-
392	Stores Equipment	4.00%	-	-	-
393	Tools, Shop And Garage Equip	5.00%	-	-	-
394	Laboratory Equip	10.00%	-	-	-
396	Communication Equip	10.00%	-	-	-
398	Other Tangible Plant	4.00%	-	1,048	3,145
			-	-	5,242
Plant Held for Future Use			-	-	-
TOTAL WASTEWATER PLANT			-	53,399	203,401
					398,932

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2

Exhibit  
Schedule B-2  
Page 4  
Witness: Bourassa

Line No.	Plant-in-Service	Per Books Accum. Depr.	A Difference to Computed Balance	B Intentionally Left Blank	C Intentionally Left Blank	D Intentionally Left Blank	E Intentionally Left Blank	Adjusted Accum. Depr.
1	Plant-in-Service							
2								
3	Acct.							
4	No. Description							
5	351 Organization	2,208	(2,208)					-
6	352 Franchises	-	-					-
7	353 Land	-	-					-
8	354 Structures & Improvements	-	-					93
9	355 Power Generation	-	-					-
10	360 Collection Sewer Forced	-	-					-
11	361 Collection Sewers Gravity	-	1,781					1,781
12	362 Special Collecting Structures	1,781	(1,702)					79
13	363 Customer Services	-	-					-
14	364 Flow Measuring Devices	-	-					-
15	365 Flow Measuring Installation	-	-					-
16	366 Reuse Services	-	-					-
17	367 Reuse Meters And Installation	-	-					-
18	370 Receiving Wells	-	269					269
19	371 Pumping Equipment	-	951					951
20	374 Reuse Distribution Reservoirs	-	-					-
21	375 Reuse Trans. and Dist. System	-	-					-
22	380 Treatment & Disposal Equipment	329,002	(747)					328,255
23	381 Plant Sewers	-	-					-
24	382 Outfall Sewer Lines	35,501	1,353					36,854
25	389 Other Sewer Plant & Equipment	25,780	(372)					25,408
26	390 Office Furniture & Equipment	-	-					-
27	390.1 Computers and Software	-	-					-
28	391 Transportation Equipment	-	-					-
29	392 Stores Equipment	-	-					-
30	393 Tools, Shop And Garage Equip	-	-					-
31	394 Laboratory Equip	-	-					-
32	396 Communication Equip	-	-					-
33	398 Other Tangible Plant	-	5,242					5,242
34								
35	TOTALS	\$ 394,272	\$ 4,660	\$ -	\$ -	\$ -	\$ -	\$ 398,932
36								
37	Accumulated Depreciation per Books							\$ 394,272
38								
39	Increase (decrease) in Plant-in-Service							\$ 4,660
40								
41	Adjustment to Plant-in-Service							\$ 4,660
42								
43	SUPPORTING SCHEDULES							
44	B-2, pages 3.5							
45								

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Original Cost Rate Base Proforma Adjustments  
Adjustment 3

Exhibit  
Schedule B-2  
Page 5  
Witness: Bourassa

Line

<u>No.</u>	<u>CIAC and Accumulated Amortization</u>	<u>CIAC</u>	<u>Rate</u>	<u>Amortization</u>	<u>Accumulated Amortization</u>
1					
2					
3	Balance at 12/31/2005	\$ -			-
4					-
5	Jan-Dec Amortization		0.000%	-	-
6	2006 Land Additions	\$ 240,000	0.000%	-	-
7	2006 Additions - Outfall Sewer Lines	55,676	1.665%	927	927
8					927
9	Balance at 12/31/2006	\$ 295,676			927
10					
11	Jan-Dec Amortization Land	\$ 240,000	0.000%	-	927
12	Jan-Dec Amortization- Outfall Sewer Lines	\$ 55,676	3.330%	1,854	2,781
13	2007 Additions - Outfall Sewer Lines	307,525	1.665%	5,120	7,901
14					7,901
15	Balance at 12/31/2007	\$ 603,201			7,901
16	Jan-Dec Amortization Land	\$ 240,000	0.00%		7,901
17	Jan-Dec Amortization- Outfall Sewer Lines	\$ 55,676	3.330%	1,854	9,755
18	2008 Additions - Outfall Sewer Lines	-	1.665%	-	9,755
19					9,755
20					9,755
21	Balance at 12/31/2008	<u>\$ 603,201</u>			9,755
22					
23					
24					
25	Computed balance at 12/31/2008	\$ 603,201			\$ 9,755
26					
27	Book balance at 12/31/2008	<u>\$ 603,201</u>			<u>\$ 27,490</u>
28					
29	Increase (decrease)	\$ -			\$ (17,735)
30					
31					
32	Adjustment to CIAC	<u>\$ -</u>			<u>\$ 17,735</u>
33	Label	3a			3b
34					
35					

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Original Cost Rate Base Proforma Adjustments  
Adjustment 4

Line

No.

Deferred Income Tax as of December 31, 2008

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

Adjusted

Book Value<sup>1</sup>

\$ 4,428,471

(398,932)

(593,446)

\$ 3,436,094

\$ -

Tax Value

3,551,621

-

Probability  
of Realization  
of Future  
Tax Benefit

Tax Benefit

100.0%

100.0%

Deductible TD  
(Taxable TD)  
Expected to  
be Realized

115,527

-

Tax  
Rate

32.4%

32.4%

Future Tax Asset  
Current Non Current

\$ -

\$ -

Future Tax Liability  
Current Non Current

\$ -

\$ -

\$ 37,425

\$ 37,425

Net Asset (Liability)

\$ 37,425

Adjustment to DIT

\$ (37,425)

<sup>1</sup> Adjusted per B-2

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Computation of Working Capital

Exhibit  
Schedule B-5  
Page 1  
Witness: Bourassa

Line

No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	76,710
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepays		790
6	Materials & Supplies		-

7

8

9	Total Working Capital Allowance	<u>\$</u>	<u>77,500</u>
---	---------------------------------	-----------	---------------

10

11

12	Working Capital Requested	<u>\$</u>	<u>-</u>
----	---------------------------	-----------	----------

13

14

15 SUPPORTING SCHEDULES:

16 E-1

17

RECAP SCHEDULES:

B-1

**Coronado Utilities, Inc.**  
**Test Year Ended December 31, 2008**  
**Income Statement**

Exhibit  
Schedule C-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	<b>Revenues</b>						
2	Flat Rate Revenues	\$ 726,353	4/5	\$ (15,696)	\$ 710,657	\$ 156,498	\$ 867,155
3	Measured Revenues	157,655			157,655		157,655
4	Other Wastewater Revenues	15,218			15,218		15,218
5		<u>\$ 899,226</u>		<u>\$ (15,696)</u>	<u>\$ 883,530</u>	<u>\$ 156,498</u>	<u>\$ 1,040,028</u>
6	<b>Operating Expenses</b>						
7	Salaries and Wages	\$ 22,570	10a	29,930	\$ 52,500		\$ 52,500
8	Purchased Wastewater Treatment	-			-		-
9	Sludge Removal Expense	-			-		-
10	Purchased Power	53,814	7/8	404	54,218		54,218
11	Fuel for Power Production	-			-		-
12	Chemicals	28,079	6	(289)	27,790		27,790
13	Materials and Supplies	2,978			2,978		2,978
14	Contractual Services	177,286	9	(35,900)	141,386		141,386
15	Contractual Services- Testing	3,676			3,676		3,676
16	Contractual Services - Other	114,088	11	(72,747)	41,341		41,341
17	Equipment Rental	-			-		-
18	Rents - Building	-			-		-
19	Transportation Expenses	209			209		209
20	Insurance - General Liability	11,066			11,066		11,066
21	Insurance - Other	-			-		-
22	Regulatory Expenses	3,505			3,505		3,505
23	Regulatory Commission Expense	-	3	58,333	58,333		58,333
24	Miscellaneous Expense	37,081			37,081		37,081
25	Bad Debt Expense	46,313			46,313		46,313
26	Depreciation and Amortization	180,888	1	5,207	186,095		186,095
27	Taxes Other Than Income	2,394	10b	3,128	5,521		5,521
28	Property Taxes	13,194	2	44,538	57,733		57,733
29	Income Tax	(5,729)	14	5,018	(711)	50,698	49,987
30					-		-
31	<b>Total Operating Expenses</b>	<u>\$ 691,411</u>		<u>\$ 37,622</u>	<u>\$ 729,033</u>	<u>\$ 50,698</u>	<u>\$ 779,731</u>
32	<b>Operating Income</b>	<u>\$ 207,815</u>		<u>\$ (53,318)</u>	<u>\$ 154,497</u>	<u>\$ 105,800</u>	<u>\$ 260,297</u>
33	<b>Other Income (Expense)</b>						
34	Interest Income	6,659	12a	(6,659)	-		-
35	Other income	2,836	12b	(2,836)	-		-
36	Interest Expense	(198,381)	13	42,400	(155,981)		(155,981)
37	Other Expense	278	12c	(278)	-		-
38							
39	<b>Total Other Income (Expense)</b>	<u>\$ (188,608)</u>		<u>\$ 32,627</u>	<u>\$ (155,981)</u>	<u>\$ -</u>	<u>\$ (155,981)</u>
40	<b>Net Profit (Loss)</b>	<u>\$ 19,206</u>		<u>\$ (20,691)</u>	<u>\$ (1,484)</u>	<u>\$ 105,800</u>	<u>\$ 104,316</u>

SUPPORTING SCHEDULES:

C-2

E-2

RECAP SCHEDULES:

A-1

Line No.	1	2	3	4	5	6	Subtotal
	Depreciation Expense	Property Taxes	Rate Case Expense	Revenue Adjustment	Revenue Annualization	Annualization of Chemicals Exp.	
1							
2							
3							
4							
5	5,207	44,538	58,333		(6,033)		(15,696)
6						(289)	107,789
7							
8	(5,207)	(44,538)	(58,333)	(9,663)	(6,033)	289	(123,485)
9							
10							-
11							-
12							-
13							
14							
15							
16	(5,207)	(44,538)	(58,333)	(9,663)	(6,033)	289	(123,485)
17							
18							
19							
20							
21							
22							
23							
24	969	(564)	(35,900)	33,058	(72,747)		32,604
25							
26							
27	(969)	564	35,900	(33,058)	72,747	-	(48,300)
28							
29							
30							
31							
32						(9,773)	(9,773)
33							
34							
35	(969)	564	35,900	(33,058)	72,747	(9,773)	(58,073)
36							
37							
38							
39							
40							
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42							
43							
44							
45							
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49							
50							
51							
52							
53							
54	42,400	(5,018)	-	-	-	-	(20,691)
55							
56							
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**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustments to Revenues and Expenses  
Adjustment Number 1

Exhibit  
Schedule C-2  
Page 2  
Witness: Bourassa

Line

No.		Adjusted		
1	<u>Depreciation Expense</u>			
2				
3	<b>Acct.</b>	<b>Original</b>	<b>Proposed</b>	<b>Depreciation</b>
4	<b>No. Description</b>	<b>Cost</b>	<b>Rates</b>	<b>Expense</b>
5	351 Organization	5,194	0.00%	-
6	352 Franchises	-	0.00%	-
7	353 Land	315,001	0.00%	-
8	354 Structures & Improvements	1,858	3.33%	62
9	355 Power Generation	-	5.00%	-
10	360 Collection Sewer Forced	-	2.00%	-
11	361 Collection Sewers Gravity	59,350	2.00%	1,187
12	362 Special Collecting Structures	1,576	2.00%	32
13	363 Customer Services	-	2.00%	-
14	364 Flow Measuring Devices	-	10.00%	-
15	365 Flow Measuring Installation	-	10.00%	-
16	366 Reuse Services	-	2.00%	-
17	367 Reuse Meters And Installation	-	8.33%	-
18	370 Receiving Wells	16,133	3.33%	537
19	371 Pumping Equipment	15,223	12.50%	1,903
20	374 Reuse Distribution Reservoirs	-	2.50%	-
21	375 Reuse Trans. and Dist. System	-	2.50%	-
22	380 Treatment & Disposal Equipment	3,243,375	5.00%	162,169
23	381 Plant Sewers	-	5.00%	-
24	382 Outfall Sewer Lines	540,205	3.33%	17,989
25	389 Other Sewer Plant & Equipment	178,135	6.67%	11,882
26	390 Office Furniture & Equipment	-	6.67%	-
27	390.1 Computers and Software	-	20.00%	-
28	391 Transportation Equipment	-	20.00%	-
29	392 Stores Equipment	-	4.00%	-
30	393 Tools, Shop And Garage Equip	-	5.00%	-
31	394 Laboratory Equip	-	10.00%	-
32	396 Communication Equip	-	10.00%	-
33	398 Other Tangible Plant	52,423	4.00%	2,097
34	TOTALS	\$ 4,428,472		\$ 197,857
35				
36	Less: Amortization of Contributions			
37	353 Land	\$ 250,000	0.0000%	\$ -
38	382 Outfall Sewer Lines	\$ 353,201	3.3300%	\$ (11,762)
39		\$ 603,201		\$ (11,762)
40				
41	Total Depreciation Expense			\$ 186,095
42				
43	Test Year Depreciation Expense			<u>180,888</u>
44				
45	Increase (decrease) in Depreciation Expense			<u>5,207</u>
46				
47	Adjustment to Revenues and/or Expenses			<u>\$ 5,207</u>
48				
49	<u>SUPPORTING SCHEDULE</u>			
50	B-2, page 3			



**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and/or Expenses  
Adjustment Number 2

Exhibit  
Schedule C-2  
Page 3  
Witness: Bourassa

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Adjusted Revenues in year ended 12/31/2008	\$ 883,530
4	Adjusted Revenues in year ended 12/31/2008	883,530
5	Proposed Revenues	<u>1,040,028</u>
6	Average of three year's of revenue	\$ 935,696
7	Average of three year's of revenue, times 2	\$ 1,871,393
8	Add:	
9	Construction Work in Progress at 10%	\$ -
10	Deduct:	
11	Book Value of Transportation Equipment	<u>-</u>
12		
13	Full Cash Value	\$ 1,871,393
14	Assessment Ratio	21%
15	Assessed Value	<u>392,992</u>
16	Property Tax Rate	14.6906%
17		
18	Property Tax	57,733
19	Tax on Parcels	0
20		
21	Total Property Tax at Proposed Rates	<u>\$ 57,733</u>
22	Property taxes in the test year	<u>13,194</u>
23	Change in property taxes	<u>\$ 44,538</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ 44,538</u>
27		
28		

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and/or Expenses  
Adjustment Number 3

Exhibit  
Schedule C-2  
Page 4  
Witness: Bourassa

Line

No.

1	<u>Rate Case Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 175,000
4		
5	Estimated Amortization Period in Years	3
6		
7	Annual Rate Case Expense	<u>\$ 58,333</u>
8		
9	Test Year Rate Case Expense	\$ -
10		
11	Increase(decrease) Rate Case Expense	<u>\$ 58,333</u>
12		
13	Adjustment to Revenue and/or Expense	<u>\$ 58,333</u>
14		
15		
16		
17		
18		
19		
20		

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and/or Expenses  
Adjustment Number 4

Exhibit  
Schedule C-2  
Page 5  
Witness: Bourassa

Line

No.

1	<u>Revenue Adjustment</u>	
2		
3		
4	Remove BHP Revenue Subsidization for Dec 2007 recorded in Jan 2008	\$ (9,663)
5		
6		
7		
8	Total Revenue Adjustment	<u>\$ (9,663)</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ (9,663)</u>
12		
13		
14		
15		
16		
17		
18		
19		
20		

**Coronado Utilities, Inc**  
Test Year Ended December 31, 2008  
*Adjustment to Revenues and/or Expenses*  
Adjustment Number 5

Exhibit  
Schedule C-2  
Page 6  
Witness: Bourassa

Line

No.

1	<u>Revenue Annualization</u>	
2		
3		
4	Revenue Annualization	\$ (6,033)
5		
6		
7		
8	Total Revenue from Annualization	<u>\$ (6,033)</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ (6,033)</u>
12		
13	<u>SUPPORTING SCHEDULES</u>	
14	C-2 pages 6.1 to 6.2	
15	H-1	
16		
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20		

Coronado Utilities, Inc.

Residential

Customers to Year End Levels

Test Year Ended December 31, 2008

Exhibit  
Schedule C-2  
Page 6.1  
Witness: Bourassa

Line No.		Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08
1	Year End Number of Customers	1,238	1,238	1,238	1,238	1,238	1,238	1,238
2	Actual Customers	1,246	1,240	1,236	1,234	1,234	1,244	1,241
3	Increase in Number of Customers/Bills	(8)	(2)	2	4	4	(6)	(3)
4	Average Revenue / Present Rates	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50
5	Revenue Annualization / Present Rates	\$ (372)	\$ (93)	\$ 93	\$ 186	\$ 186	\$ (279)	\$ (140)
6								
7	Increase in Number of Customers	(8)	(2)	2	4	4	(6)	(3)
8	Average Revenue / Proposed Rates	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73
9	Revenue Annualization / Proposed Rates	\$ (438)	\$ (109)	\$ 109	\$ 219	\$ 219	\$ (328)	\$ (164)
10	Additional Gallons to be Produced	-	-	-	-	-	-	-
11								
12								
13								
14								
15	Year End Number of Customers	1,238	1,238	1,238	1,238	1,238	1,238	1,238
16	Actual Customers	1,243	1,251	1,254	1,246	1,238	1,246	1,238
17	Increase in Number of Customers/Bills	(5)	(13)	(16)	(8)	-	(51)	(51)
18	Average Revenue / Present Rates	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50	\$ 46.50
19	Revenue Annualization / Present Rates	\$ (233)	\$ (605)	\$ (744)	\$ (372)	\$ -	\$ (2,372)	\$ (2,372)
20								
21	Increase in Number of Customers	(5)	(13)	(16)	(8)	-	(51)	(51)
22	Average Revenue / Proposed Rates	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73	\$ 54.73
23	Revenue Annualization / Proposed Rates	\$ (233)	\$ (605)	\$ (744)	\$ (372)	\$ -	\$ (2,372)	\$ (2,372)
24	Additional Gallons to be Produced	-	-	-	-	-	-	-

## Test Year Ended December 31, 2008

Page 6.2

Line No.	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08
1	58	58	58	58	58	58	58	58
2	63	62	64	64	64	63	63	64
3	(5)	(4)	(6)	(6)	(6)	(5)	(6)	(6)
4	\$ 63.35	\$ 76.18	\$ 77.60	\$ 60.33	\$ 87.13	\$ 78.83	\$ 98.00	\$ 98.00
5	\$ (317)	\$ (305)	\$ (466)	\$ (362)	\$ (523)	\$ (394)	\$ (588)	\$ (588)
6								
7	(5)	(4)	(6)	(6)	(6)	(5)	(6)	(6)
8	\$ 74.56	\$ 89.67	\$ 91.34	\$ 71.01	\$ 102.55	\$ 92.78	\$ 115.35	\$ 115.35
9	\$ (373)	\$ (359)	\$ (548)	\$ (426)	\$ (615)	\$ (464)	\$ (692)	\$ (692)
10	(28,494)	(28,034)	(42,921)	(32,346)	(48,753)	(36,391)	(55,409)	(55,409)
11								
12								
13								
14								
15	58	58	58	58	58	58	58	58
16	61	61	59	58	58	58	58	58
17	(3)	(3)	(1)	-	-	-	-	-
18	\$ 125.89	\$ 82.37	\$ 82.50	\$ 80.41	\$ 72.64	\$ 72.64	\$ 72.64	\$ 72.64
19	\$ (378)	\$ (247)	\$ (82)	\$ -	\$ -	\$ -	\$ -	\$ -
20								
21	(3)	(3)	(1)	-	-	-	-	-
22	\$ 148.17	\$ 96.95	\$ 97.10	\$ 94.65	\$ 85.50	\$ 85.50	\$ 85.50	\$ 85.50
23	\$ (378)	\$ (247)	\$ (82)	\$ -	\$ -	\$ -	\$ -	\$ -
24	(36,242)	(22,919)	(7,653)	-	-	-	-	-
25								
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**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and/or Expenses  
Adjustment Number 6

Exhibit  
Schedule C-2  
Page 7  
Witness: Bourassa

Line

No.

1		
2	<u>Annualize Chemicals Expense</u>	
3		
4	Test Year Chemical	\$ 28,079
5	Gallons Treated (in 1000's)	83,875
6	Cost per 1,000 gallons	\$ 0.33
7		
8	Additional Wastewater gallons (in 1,000's) from revenue annualization	(864)
9		
10	Additional cost based on revenue annualization	\$ (289)
11		
12	Increase (decrease) in Chemicals Expense	<u>\$ (289)</u>
13		
14		
15		
16		
17	Adjustment to Revenue and/or Expense	<u><u>\$ (289)</u></u>
18		
19		
20		

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Schedule C-2  
Page 8  
Witness: Bourassa

Line

No.

1		
2	<u>Increase Purchased Power (APS)</u>	
3		
4	Test Year Purchased Power	\$ 53,814
5	Estimated Percentage Increase in Purchased Power	1.80%
6	Increase in Purchased Power	\$ 969
7		
8		
9	Increase (decrease) in Purchased Power	<u>\$ 969</u>
10		
11		
12		
13		
14		
15		
16		
17	Adjustment to Revenue and/or Expense	<u>\$ 969</u>
18		
19		
20		



**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and Expenses  
Adjustment Number 8

Exhibit  
Schedule C-2  
Page 9  
Witness: Bourassa

Line

No.

1		
2	<u>Annualize Purchased Power</u>	
3		
4	Test Year Purchased Power plus Adjustment 6	\$ 54,783
5	Total Flow Gallons (in 1000's)	83,875
6	Cost per 1,000 gallons	\$ 0.65
7		
8	Additional Wastewater gallons (in 1,000's) from revenue annualization	(864)
9		
10	Additional cost based on revenue annualization	\$ (564)
11		
12	Increase (decrease) in Purchased Power	<u>\$ (564)</u>
13		
14		
15		
16		
17	Adjustment to Revenue and/or Expense	<u>\$ (564)</u>
18		
19		
20		

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Adjustment to Revenues and Expenses  
Adjustment Number 9

Exhibit  
Schedule C-2  
Page 10  
Witness: Bourassa

Line

No.

1

2 Contractual Services – Remove Affiliate Profit

3

4 Contractual Services

\$ 153,479

5

6 Percentage of affiliate profit

23.39%

7

8 Affiliate Profit

\$ (35,900)

9

10

11

12

13 Total increase (decrease) in Contractual Services

\$ (35,900)

14

15

16

17 Adjustment to Revenue and/or Expense

\$ (35,900)

18

19

20

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and Expenses  
Adjustment Number 10

Exhibit  
Schedule C-2  
Page 11  
Witness: Bourassa

Line					
<u>No.</u>					
1					
2	<u>Increase Salaries and Wages and Payroll Taxes due to Operational Changes</u>				
3					
4	<u>Salaries and Wages</u>				
5	Salaries and Wages Expense - Employees	\$	36,000		
6	Salaries and Wages Expense - Officers		16,500		
7	Total Salaries and Wages Expense			\$	52,500
8					
9	Less: Test Year Salaries and Wages Expense				<u>22,570</u>
10					
11	Increase (decrease ) in Test Year Salaries and Wages			\$	<u>29,930</u>
12					<u>Label</u>
13	Adjustment to Revenue and/or Expense			\$	<u>29,930</u> 10a
14					
15	<u>Payroll Taxes</u>				
16	Wage Base	\$	52,500		
17	Social Security	6.20%	\$	3,255	
18	Medicare	1.45%		761	
19	State Unemployment (first \$7,000 of wages)	2.00%		1,050	
20	Federal Unemployment	0.80%		420	
21	Total Payroll Taxes			\$	<u>5,486</u>
22					
23	Less: Test Year Payroll Tax Expense				<u>2,359</u>
24					
25	Increase (decrease ) in Test Year Salaries and Wages			\$	<u>3,128</u>
26					<u>Label</u>
27	Adjustment to Revenue and/or Expense			\$	<u>3,128</u> 10b
28					

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and Expenses  
Adjustment Number 11

Exhibit  
Schedule C-2  
Page 12  
Witness: Bourassa

Line

No.

1

2 Reduce Contractual Services - Other Expense due to Operational Changes

3

4 Remove: Test Year Operations Contract Services \$ (97,747)

5 Remove: Test Year Certified Operator Expense (5,000)

6

7 Add: Operations Contract Services (\$2,500 per month) 30,000

8

9

10

11

12

13 Total increase (decrease) in Contractual Services - Other \$ (72,747)

14

15

16

17 Adjustment to Revenue and/or Expense \$ (72,747)

18

19

20

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and Expenses  
Adjustment Number 12

Exhibit  
Schedule C-2  
Page 13  
Witness: Bourassa

Line

No.

1			
2	<u>Remove Other Income and Expense</u>		
3			<u>Label</u>
4	Interest Income	\$ (6,659)	12a
5	Other income	\$ (2,836)	12b
6	Other Expense	\$ (278)	12c
7			
8			
9			
10			
11			
12	Total adjustment Other Income and Expnese	<u>\$ (9,773)</u>	
13			
14			
15			
16	Adjustment to Revenue and/or Expense	<u>\$ (9,773)</u>	
17			
18			
19			
20			

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Adjustment to Revenues and Expenses  
Adjustment Number 13

Exhibit  
Schedule C-2  
Page 14  
Witness: Bourassa

Line  
No.

1 Interest Synchronization

2

3

4 Fair Value Rate Base \$3,536,648

5 Weighted Cost of Debt 4.41%

6 Interest Expense \$ 155,981

7

8 Test Year Interest Expense \$ 198,381

9

10 Increase (decrease) in Interest Expense (42,400)

11

12

13

14 Adjustment to Revenue and/or Expense \$ 42,400

15

16

17 Weighted Cost of Debt Computation

18

19

	<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
--	---------------	----------------	-------------	----------------------

20 Debt	\$ 2,575,000	70.57%	6.25%	4.41%
---------	--------------	--------	-------	-------

21 Preferred Stock	\$ 570,000	15.62%	6.50%	1.02%
--------------------	------------	--------	-------	-------

22 Common Stock	\$ 504,024	13.81%	14.00%	1.93%
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23 Total	\$ 3,649,024	100.00%		7.36%
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24

25

26

27

**Coronado Utilities, Inc.**  
**Test Year Ended December 31, 2008**  
*Adjustment to Revenues and/or Expenses*  
**Adjustment Number 14**

Exhibit  
Schedule C-2  
Page 15  
Witness: Bourassa

Line

No.

1	<u>Income Tax Computation</u>			
2				
3		<b>Test Year</b>	<b>Test Year</b>	<b>Adjusted</b>
4		<b>Book</b>	<b>Adjusted</b>	<b>with Rate</b>
5		<b>Results</b>	<b>Results</b>	<b>Increase</b>
6				
7	Taxable Income before Scottsdale Operating	\$ 13,477	\$ (2,195)	\$ 154,303
8	Plus: Scottsdale Operating Lease	-	-	-
9	Taxable Income	<u>\$ 13,477</u>	<u>\$ (2,195)</u>	<u>\$ 154,303</u>
10				
11				
12				
13	Income Before Taxes	<u>\$ 13,477</u>	<u>\$ (2,195)</u>	<u>\$ 154,303</u>
14				
15	Arizona Income Before Taxes	\$ 13,477	\$ (2,195)	\$ 154,303
16				
17	Less Arizona Income Tax	<u>\$ 939</u>	<u>\$ (153)</u>	<u>\$ 10,752</u>
18	Rate = 6.97%			
19	Arizona Taxable Income	\$ 12,538	\$ (2,042)	\$ 143,551
20				
21	Arizona Income Taxes	\$ 939	\$ (153)	\$ 10,752
22				
23	Federal Income Before Taxes	\$ 13,477	\$ (2,195)	\$ 154,303
24				
25	Less Arizona Income Taxes	<u>\$ 939</u>	<u>\$ (153)</u>	<u>\$ 10,752</u>
26				
27	Federal Taxable Income	<u>\$ 12,538</u>	<u>\$ (2,042)</u>	<u>\$ 143,551</u>
28				
29				
30				
31	FEDERAL INCOME TAXES:			
32	15% BRACKET	\$ 1,881	\$ (306)	\$ 7,500
33	25% BRACKET	\$ -	\$ -	\$ 6,250
34	34% BRACKET	\$ -	\$ -	\$ 8,500
35	39% BRACKET	\$ -	\$ -	\$ 16,985
36	34% BRACKET	\$ -	\$ -	\$ -
37		Rate	Rate	Rate
38	Federal Income Taxes	<u>\$ 1,881</u> 13.95%	<u>\$ (306)</u> 13.95%	<u>\$ 39,235</u> 25.43%
39				
40				
41	Total Income Tax	<u>\$ 2,820</u>	<u>\$ (459)</u>	<u>\$ 49,987</u>
42				
43	Overall Tax Rate	<u>20.92%</u>	<u>20.92%</u>	<u>32.40%</u>
44				
45	Income Tax at Proposed Rates Effective Rate		<u>\$ (711)</u>	
46				

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Computation of Gross Revenue Conversion Factor

Exhibit  
Schedule C-3  
Page 1  
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	25.43%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	32.40%
9		
10	Operating Income % = 100% - Tax Percentage	67.60%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.4792
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		A-1
20		



**Coronado Utilities, Inc.**  
**Test Year Ended December 31, 2008**  
**Comparative Balance Sheets**

Exhibit  
Schedule E-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2008	Year Ended 12/31/2007	Year Ended 12/31/2006
1	<b>ASSETS</b>			
2	Plant In Service	\$ 4,428,471	\$ 4,282,324	\$ 2,505,183
3	Non-Utility Plant			
4				
5	Construction Work in Progress			
6	Less: Accumulated Depreciation	(394,272)	(166,925)	(53,919)
7	Net Plant	\$ 4,034,199	\$ 4,115,399	\$ 2,451,264
8				
9	Debt Reserve Fund	\$ 245,000	\$ 245,000	\$ 245,000
10				
11	<b>CURRENT ASSETS</b>			
12	Cash and Equivalents	\$ 20,696	\$ 20,734	\$ 1,967,199
13	Restricted Cash	42,514	32,996	
14	Accounts Receivable, Net	106,972	82,237	20,167
15	Accounts Receivable -Other			
16	Materials and Supplies			
17	Prepayments/Deposits	790	790	
18	Other Current Assets	-		99,477
19	Total Current Assets	\$ 170,972	\$ 136,756	\$ 2,086,843
20				
21	Deferred Bond Expenses	\$ 82,938	\$ 87,677	\$ 92,416
22				
23	Other Investments & Special Funds	\$ 20,417	\$ 20,417	\$ 20,417
24				
25	<b>TOTAL ASSETS</b>	<b>\$ 4,553,525</b>	<b>\$ 4,605,249</b>	<b>\$ 4,895,940</b>
26				
27				
28	<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
29				
30	Equity	\$ 1,074,024	\$ 1,086,788	\$ 981,797
31				
32	Long-Term Debt	\$ 2,495,000	\$ 2,575,000	\$ 2,650,000
33				
34	<b>CURRENT LIABILITIES</b>			
35	Accounts Payable	\$ 302,096	\$ 206,503	\$ 580,133
36	Current Portion of Long-Term Debt	80,000	75,000	-
37	Payables to Associated Companies			
38	Customer Meter Deposits, Current	19,809	34,340	191,008
39	Accrued Taxes	(7,229)	17,880	54,624
40	Accrued Interest	13,411		
41	Other Current Liabilities	703	13,802	
42	Total Current Liabilities	\$ 408,791	\$ 347,525	\$ 825,765
43	<b>DEFERRED CREDITS</b>			
44	Customer Meter Deposits, less current			
45	Advances in Aid of Construction			
46	Accumulated Deferred Income Taxes			
47	Contributions In Aid of Construction	603,201	603,201	295,676
48	Accumulated Amortization of CIAC	(27,490)	(7,264)	-
49	Other Deferred Credits			142,702
50	Total Deferred Credits	\$ 575,711	\$ 595,937	\$ 438,378
51				
52	Total Liabilities & Common Equity	\$ 4,553,526	\$ 4,605,250	\$ 4,895,940
53				
54	<b>SUPPORTING SCHEDULES:</b>			
55	E-5			
56				

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Comparative Income Statements

Exhibit  
Schedule E-2  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2008	Prior Year Ended 12/31/2007	Prior Year Ended 12/31/2006
1	<b>Revenues</b>			
2	Flat Rate Revenues	\$ 726,353	\$ 527,868	\$ 234,676
3	Measured Revenues	157,655	155,834	78,552
4	Other Wastewater Revenues	15,218	19,628	36,042
5	<b>Total Revenues</b>	<u>\$ 899,226</u>	<u>\$ 703,330</u>	<u>\$ 349,270</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 22,570	\$ -	\$ -
8	Purchased Wastewater Treatment			
9	Sludge Removal Expense			
10	Purchased Power	53,814	23,203	
11	Fuel for Power Production			
12	Chemicals	28,079	11,651	
13	Materials and Supplies	2,978	2,235	1,655
14	Contractual Services	177,286	36,612	9,191
15	Contractual Services- Testing	3,676	1,313	50
16	Contractual Services - Other	114,088	214,630	104,059
17	Equipment Rental			
18	Rents - Building			
19	Transportation Expenses	209		
20	Insurance - General Liability	11,066	15,149	6,726
21	Insurance - Other			
22	Regulatory Expenses	3,505	1,174	45
23	Regulatory Commission Expense - Rate Case	-		
24	Miscellaneous Expense	37,081	18,553	5,913
25	Bad Debt Expense	46,313	5,500	
26	Depreciation and Amortization	180,888	110,482	53,919
27	Taxes Other Than Income	2,394	-	
28	Property Taxes	13,194	198	
29	Income Tax	(5,729)	17,087	54,669
30				
31	<b>Total Operating Expenses</b>	<u>\$ 691,411</u>	<u>\$ 457,787</u>	<u>\$ 236,227</u>
32	<b>Operating Income</b>	<u>\$ 207,815</u>	<u>\$ 245,543</u>	<u>\$ 113,043</u>
33	<b>Other Income (Expense)</b>			
34	Interest Income	\$ 6,659	\$ 41,021	\$ 63,056
35	Other income	2,836	625	
36	Interest Expense	(198,381)	(182,198)	(80,590)
37	Other Expense	278		
38				
39	<b>Total Other Income (Expense)</b>	<u>\$ (188,608)</u>	<u>\$ (140,552)</u>	<u>\$ (17,534)</u>
40	<b>Net Profit (Loss)</b>	<u>\$ 19,206</u>	<u>\$ 104,991</u>	<u>\$ 95,509</u>

SUPPORTING SCHEDULES:

RECAP SCHEDULES:  
A-2

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Comparative Statements of Cash Flows

Exhibit  
Schedule E-3  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2008	Prior Year Ended 12/31/2007	Prior Year Ended 12/31/2006
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	\$ 19,206	\$ 104,991	\$ 95,509
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	180,888	110,482	53,919
8	Adjustments to Depreciation/Amortization	(24,773)	(4,740)	
9	Other			
10	Changes in Certain Assets and Liabilities:			
11	Accounts Receivable	(24,735)	(62,070)	(20,167)
12	Accounts Receivable, Other			
13	Materials and Supplies Inventory			
14	Prepaid Expenses		(790)	
15	Restricted Cash	9,518	(32,996)	
16	Accounts Payable	95,593	(373,630)	580,133
17	Intercompany payable			
18	Customer Deposits	(14,531)	(156,668)	191,008
19	Taxes Payable	(25,108)	(36,744)	
20	Other assets and liabilities	312	60,857	(310,270)
21	Deferred Credits and Debits	4,739	(137,964)	50,286
22	Net Cash Flow provided by Operating Activities	<u>\$ 221,109</u>	<u>\$ (529,272)</u>	<u>\$ 640,418</u>
23	Cash Flow From Investing Activities:			
24	Capital Expenditures	(146,147)	(1,724,718)	(2,505,183)
25	Plant Held for Future Use			
26	Changes in debt reserve fund			
27	Net Cash Flows from Investing Activities	<u>\$ (146,147)</u>	<u>\$ (1,724,718)</u>	<u>\$ (2,505,183)</u>
28	Cash Flow From Financing Activities			
29	Change in Restricted Cash			
30	Change in net amounts due to parent and affiliates			
31	Receipt of advances for and contributions in aid of construction		307,525	295,676
32	Refunds for advances for construction			
33	Net Receipts of Long-Term Debt	(75,000)	-	2,650,000
34	Dividends Paid - Common			
35	Dividends Paid - Preferred			
36	Deferred Financing Costs			
37	Paid in Capital			886,288
38	Net Cash Flows Provided by Financing Activities	<u>\$ (75,000)</u>	<u>\$ 307,525</u>	<u>\$ 3,831,964</u>
39	Increase(decrease) in Cash and Cash Equivalents	(38)	(1,946,465)	1,967,199
40	Cash and Cash Equivalents at Beginning of Year	20,734	1,967,199	-
41	Cash and Cash Equivalents at End of Year	<u>\$ 20,696</u>	<u>\$ 20,734</u>	<u>\$ 1,967,199</u>

SUPPORTING SCHEDULES:

RECAP SCHEDULES:  
A-5

**Coronado Utilities, Inc.**  
**Test Year Ended December 31, 2008**  
**Statement of Changes in Stockholder's Equity**

Exhibit  
Schedule E-4  
Page 1  
Witness: Bourassa

Line  
No.

	<u>Common</u> <u>Stock</u>	<u>Preferred</u> <u>Stock</u>	<u>Additional</u> <u>Paid-In-Capital</u>	<u>Retained</u> <u>Earnings</u>	<u>Total</u>
1					
2					
3					
4	Balance, December 31, 2005	\$ -	\$ -	\$ -	\$ -
5	Paid In Capital	\$ 750	\$ 570,000	315,538	886,288
6	Dividends				-
7	Net Income			95,509	95,509
8					
9	Balance, December 31, 2006	\$ 750	\$ 570,000	\$ 315,538	\$ 95,509
10	Paid In Capital				-
11	Dividends				-
12	Net Income			104,991	104,991
13					
14	Balance, December 31, 2007	\$ 750	\$ 570,000	\$ 315,538	\$ 200,500
15	Paid In Capital				-
16	Prior Year Adjustments			(31,970)	(31,970)
17	Dividends				-
18	Net Income			19,206	19,206
19					
20	Balance, Decemebr 31, 2008	\$ 750	\$ 570,000	\$ 315,538	\$ 187,736
21					\$ 1,074,024

21

22

23

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26

27 SUPPORTING SCHEDULES:

RECAP SCHEDULES:

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Detail of Plant in Service

Exhibit  
Schedule E-5  
Page 1  
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2007	Plant Additions, Reclassifications or Retirements	Plant Balance at 12/31/2008
1					
2	351	Organization	\$ 5,194	\$ -	\$ 5,194
3	352	Franchises		-	
4	353	Land	240,000	75,001	315,001
5	354	Structures & Improvements	1,858	-	1,858
6	355	Power Generation		-	
7	360	Collection Sewer Forced		-	
8	361	Collection Sewers Gravity	59,350	-	59,350
9	362	Special Collecting Structures	1,576	-	1,576
10	363	Customer Services		-	
11	364	Flow Measuring Devices		-	
12	365	Flow Measuring Installation		-	
13	366	Reuse Services		-	
14	367	Reuse Meters And Installation		-	
15	370	Receiving Wells		16,133	16,133
16	371	Pumping Equipment		15,223	15,223
17	374	Reuse Distribution Reservoirs		-	
18	375	Reuse Trans. and Dist. System		-	
19	380	Treatment & Disposal Equipment	3,190,216	53,159	3,243,375
20	381	Plant Sewers		-	
21	382	Outfall Sewer Lines	553,572	(13,367)	540,205
22	389	Other Sewer Plant & Equipment	178,166	(31)	178,135
23	390	Office Furniture & Equipment		-	
24	390.1	Computers and Software		-	
25	391	Transportation Equipment		-	
26	392	Stores Equipment	-	-	
27	393	Tools, Shop And Garage Equip	-	-	
28	394	Laboratory Equip	-	-	-
29	396	Communication Equip	-	-	-
30	398	Other Tangible Plant	52,423	-	52,423
31					
32		TOTAL WATER PLANT	\$ 4,282,355	\$ 146,117	\$ 4,428,472

SUPPORTING SCHEDULES

RECAP SCHEDULES:

A-4

E-1

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Operating Statistics

Exhibit  
Schedule E-7  
Page 1  
Witness: Bouras

Line No.		Test Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2007</u>	Prior Year Ended <u>12/31/2006</u>
1	<u>WASTEWATER STATISTICS:</u>			
2				
3				
4				
5	Sewer Revenues from Customer:	\$ 899,226	\$ 703,330	\$ 349,270
6				
7				
8				
9				
10	Year End Number of Customers	1,302	1,315	1,291
11				
12				
13				
14	Annual Revenue per Year End Customer	\$ 690.65	\$ 534.85	\$ 270.54
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Taxes Charged to Operations

Exhibit  
Schedule E-8  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended <u>12/31/2008</u>	Prior Year Ended <u>12/31/2007</u>	Prior Year Ended <u>12/31/2006</u>
1	<u>Description</u>			
2				
3	Federal Income Taxes*	\$ 1,481	\$ 8,578	\$ 44,202
4	State Income Taxes*	1,339	8,509	10,467
5	Payroll Taxes	-	-	-
6	Property Taxes	13,194	198	-
7				
8	Totals	<u>\$ 16,014</u>	<u>\$ 17,285</u>	<u>\$ 54,669</u>
9				
10				
11	*Computed			
12				
13				
14				

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Notes To Financial Statements

Exhibit  
Schedule E-9  
Page 1  
Witness: Bourassa

The Company does not have outside auditors



**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Projected Income Statements - Present & Proposed Rates

Exhibit  
Schedule F-1  
Page 1  
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2009	At Proposed Rates Year Ended 12/31/2009
1	<b>Revenues</b>			
2	Flat Rate Revenues	\$ 726,353	\$ 710,657	\$ 867,155
3	Measured Revenues	157,655	157,655	157,655
4	Other Wastewater Revenues	15,218	15,218	15,218
5		<u>\$ 899,226</u>	<u>\$ 883,530</u>	<u>\$ 1,040,028</u>
6	<b>Operating Expenses</b>			
7	Salaries and Wages	\$ 22,570	\$ 52,500	\$ 52,500
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal Expense	-	-	-
10	Purchased Power	53,814	54,218	54,218
11	Fuel for Power Production	-	-	-
12	Chemicals	28,079	27,790	27,790
13	Materials and Supplies	2,978	2,978	2,978
14	Contractual Services	177,286	141,386	141,386
15	Contractual Services- Testing	3,676	3,676	3,676
16	Contractual Services - Other	114,088	41,341	41,341
17	Equipment Rental	-	-	-
18	Rents - Building	-	-	-
19	Transportation Expenses	209	209	209
20	Insurance - General Liability	11,066	11,066	11,066
21	Insurance - Other	-	-	-
22	Regulatory Expenses	3,505	3,505	3,505
23	Regulatory Commission Expense - Rate Case	-	58,333	58,333
24	Miscellaneous Expense	37,081	37,081	37,081
25	Bad Debt Expense	46,313	46,313	46,313
26	Depreciation and Amortization	180,888	186,095	186,095
27	Taxes Other Than Income	2,394	5,521	5,521
28	Property Taxes	13,194	57,733	57,733
29	Income Tax	(5,729)	(711)	49,987
30	<b>Total Operating Expenses</b>	<u>\$ 691,411</u>	<u>\$ 729,033</u>	<u>\$ 779,731</u>
31	<b>Operating Income</b>	<u>\$ 207,815</u>	<u>\$ 154,497</u>	<u>\$ 260,297</u>
32	<b>Other Income (Expense)</b>			
33	Interest Income	6,659	-	-
34	Other income	2,836	-	-
35	Interest Expense	(198,381)	(155,981)	(155,981)
36	Other Expense	278	-	-
37	Gain/Loss Sale of Fixed Assets	-	-	-
38	<b>Total Other Income (Expense)</b>	<u>\$ (188,608)</u>	<u>\$ (155,981)</u>	<u>\$ (155,981)</u>
39	<b>Net Profit (Loss)</b>	<u>\$ 19,206</u>	<u>\$ (1,484)</u>	<u>\$ 104,316</u>
40				

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Projected Statements of Changes in Financial Position  
Present and Proposed Rates

Exhibit  
Schedule F-2  
Page 1  
Witness: Bourassa

Line No.		Test Year Ended 12/31/2008	At Present Rates Year Ended 12/31/2009	At Proposed Rates Year Ended 12/31/2009
5	Cash Flows from Operating Activities			
6	Net Income	\$ 19,206	\$ (1,484)	\$ 104,316
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	180,888	186,095	186,095
10	Deferred Income Taxes	(24,773)		
11	Other	-		
12	Changes in Certain Assets and Liabilities:	-		
13	Accounts Receivable	(24,735)		
14	Unbilled Revenues	-		
15	Materials and Supplies Inventory	-		
16	Prepaid Expenses	-		
17	Deferred Charges	9,518		
18	Accounts Payable	95,593		
19	Intercompany payable	-		
20	Customer Deposits	(14,531)		
21	Intercompany taxes receivable and taxes payable	(25,108)		
22	Other assets and liabilities	312		
23	Deferred Debits and Credits	4,739		
24	Net Cash Flow provided by Operating Activities	\$ 221,109	\$ 184,611	\$ 290,411
25	Cash Flow From Investing Activities:			
26	Capital Expenditures	(146,147)	(30,000)	(30,000)
27	Plant Held for Future Use	-		
28	Changes in debt reserve fund	-		
29	Net Cash Flows from Investing Activities	\$ (146,147)	\$ (30,000)	\$ (30,000)
30	Cash Flow From Financing Activities			
31	Change in Restricted Cash	-	-	-
32	Change in net amounts due to parent and affiliates	-	-	-
33	Receipt of advances for and contributions in aid of construction	-	-	-
34	Refunds for advances for construction	-	-	-
35	Repayments of Long-Term Debt	(75,000)	(80,000)	(80,000)
36	Dividends Paid - Common	-	-	-
37	Dividends Paid - Preferred	-	-	-
38	Deferred Financing Costs	-	-	-
39	Paid in Capital	-	-	-
40	Net Cash Flows Provided by Financing Activities	\$ (75,000)	\$ (80,000)	\$ (80,000)
41	Increase(decrease) in Cash and Cash Equivalents	(38)	74,611	180,411
42	Cash and Cash Equivalents at Beginning of Year	20,734	20,697	20,697
43	Cash and Cash Equivalents at End of Year	\$ 20,697	\$ 95,307	\$ 201,108

F-3

**Coronado Utilities, Inc**  
Test Year Ended December 31, 2008  
Projected Construction Requirements

Exhibit  
Schedule F-3  
Page 1  
Witness: Bourassa

Line  
No.  
1  
2  
3  
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Account

Number Plant Asset:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
	\$ -	\$ -	\$ -
352 Franchises			
353 Land and Land Rights			
354 Structures and Improvements			
355 Power Generation Equipment			
360 Collection Sewers - Force			
361 Collection Sewers - Gravity			
362 Special Collecting Structures			
363 Services to Customers			
364 Flow Measuring Devices			
365 Flow Measuring Installations			
370 Receiving Wells			
371 Effluent Pumping Equipment	30,000		
380 Treatment and Disposal Equipment		145,000	126,000
381 Plant Sewers			
382 Outfall Sewer Lines			
389 Other Plant and Misc. Equipment			
390 Office Furniture and Equipment			
391 Transportation Equipment			
393 Tools, Shop and Garage Equipment.			
394 Laboratory Equipment			
395 Power Operated Equipment			
398 Other Tangible Plant			
Total	\$ 30,000	\$ 145,000	\$ 126,000

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Assumptions Used in Rate Filing

Exhibit  
Schedule F-4  
Page 1  
Witness: Bourassa

Line

No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
- 8 Accumulated depreciation was computed using depreciation rates authorized
- 9 in prior Commission decision.
- 10
- 11 *Income taxes* were computed using statutory state and federal income tax rates.
- 12
- 13
- 14
- 15

Coronado Utilities, Inc  
Test Year Ended December 31, 2001  
Revenue Summary  
With Annualized Revenues to Year End Number of Customers

Line No.	Customer Class	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Wastewater Revenues	Percent of Proposed Wastewater Revenues
1	Residential	\$ 693,176	\$ 815,868	\$ 122,692	17.70%	79.24%	79.10%
2	Commercial	60,805	71,568	10,763	17.70%	6.95%	6.94%
3	Mobile Home	100,605	118,412	17,807	17.70%	11.50%	11.48%
4	School	9,121	10,735	1,614	17.70%	1.04%	1.04%
5							
6	Effluent	11,122	14,829	3,707	33.33%	1.27%	1.44%
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28	Total Revenues Before Annualization	\$ 874,828	\$ 1,031,411	\$ 156,583	17.90%	100.00%	100.00%
29							

Line No.	Class	Revenue Annualization				
		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills
1						
2						
3						
4						
5	Residential	\$ (2,372)	\$ (2,791)	(420)	0.00%	(51) C-2, pg. 5.1
6	Commercial	(3,661)	(4,309)	(648)	0.00%	(45) C-2, pg. 5.2
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33	Total Revenue Annualization	\$ (6,033)	\$ (7,101)	\$ (1,068)	0.00%	(96)
34						

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Revenue Summary  
With Annualized Revenues to Year End Number of Customers

Line No.	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1						
2						
3	\$ 874,828	\$ 1,031,411	\$ 156,583	17.90%	100.00%	100.00%
4	(6,033)	(7,101)	(1,067.80)	17.70%	-0.69%	-0.69%
5	\$ 868,795	\$ 1,024,310	\$ 155,515	17.90%		
6						
7	\$ 15,218	\$ 15,218	-	0.00%	1.74%	1.48%
8	(483)	500	983	0.00%	-0.06%	0.05%
9	\$ 883,530	\$ 1,040,028	\$ 156,498	17.71%	0.00%	0.00%
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						

Revenue Reconciliation

Revenue per bill count before revenue annualization	\$ 889,563
Unadjusted Revenues per GL	\$ 899,226
Billing error to BHP	
Dec 2007 BHP Revenue Subsidization	
Recorded in Jan 2008	\$ (9,663)
Revenue per GL (sewer revenues)	\$ 889,563
Difference	(0)
Difference %	0.00%
Tolerance %	0.50%
Tolerance Amount + or -	\$ 4,448
Acceptable?	YES

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Customer Summary

Exhibit  
Schedule H-2  
Page 1  
Witness: Bourassa

Line No.	Customer Class	(a) Average Number of Customers at 12/31/2008	Average Consumption (in 1,000 gals)	Average Bill		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	1,242	-	\$ 46.50	\$ 54.73	8.23	17.70%
2	Commercial	62	1,500	22.20	26.13	3.93	17.70%
3	Mobile Home	108	1,233,600	7,039.02	8,284.93	1,245.91	17.70%
4	School	4	58,463	152.67	179.70	27.02	17.70%
5							
6	Effluent	1	6,178,667	954.98	1,273.30	318.33	33.33%
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24	Total	<u>1,417</u>					

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.



Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Customer Summary

Exhibit  
Schedule H-2  
Page 2  
Witness: Bourassa

Line No.	Customer Class	(a) Average Number of Customers at		Median Consumption (in 1,000 gals)	Median Bill		Proposed Increase	
		12/31/2008	12/31/2009		Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	1,242	-	\$	46.50	\$ 54.73	8.23	17.70%
2	Commercial	62	1,500		22.20	26.13	3.93	17.70%
3	Mobile Home	108	1,233,600		7,039.02	8,284.93	1,245.91	17.70%
4	School	4	46,500		152.67	179.70	27.02	17.70%
5								
6	Effluent	1	6,366,500		954.98	1,273.30	318.33	33.33%
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24	Total						<u>1,417</u>	

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Present and Proposed Rates

Exhibit  
Schedule H-3  
Page 1  
Witness: Bourassa

Line No.		Present Rates	Proposed Rates	Change	Percent Change
1					
2					
3	Monthly Minimum Charge for:				
4					
5	Residential	\$ 46.50	\$ 54.73	\$ 8.23	17.70%
6	Commercial	\$ 7.50	\$ 8.83	\$ 1.33	17.70%
7	Mobile Home Park – Winter Only	\$ 7.50	\$ 8.83	\$ 1.33	17.70%
8	Mobile Home Park – Summer Only per occupied space	\$ 31.86	\$ 37.50	\$ 5.64	17.70%
9	School	\$ 7.50	\$ 8.83	\$ 1.33	17.70%
10					
11					
12					
13					
14					
15					
16	Volumetric Rates				
17					
18	Commercial	\$ 0.9800	\$ 1.1535		17.70%
19	Mobile Home Park - Winter Only	\$ 0.5700	\$ 0.6709		17.70%
20	School	\$ 0.3122	\$ 0.3675		17.70%
21					
22	Effluent				
23	Effluent (per 1,000 gallons)	\$ 0.1500	\$ 0.2000		33.33%
24	Effluent (per acre foot)	\$ 48.88	\$ 65.17		33.33%
25					
26					
27					
28					
29					
30					
31	NT = No Tariff				
32					

(Per 100 gallons of water usage)

**Coronado Utilities, Inc.**  
Changes in Representative Rate Schedules  
Test Year Ended December 31, 2008

Exhibit  
Schedule H-3  
Page 2  
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment of service	\$ 25.00	\$ 25.00
2	Reconnection (Delinquent)(a)	\$ 35.00	\$ 35.00
3	Deposit	*	*
4	Deposit Interest	**	**
5	Re-establishment of service	***	***
6	NSF Check	\$ 25.00	\$ 25.00
7	Late Payment Penalty	1.5% per month	1.5% per month
8	Deferred Payment	1.5% per month	1.5% per month
9	Main extension and additional facilities agreements (b)	Cost	Cost
10	Service Calls (after hours, per hour)	NT	\$40.00
11			
12			
13			
14	* Per Commission Rule A.A.C. R-14-2-603(B). Residential: Min. deposit two times average monthly bill.		
15	Non-residential - 2 and one-half time the estimated maximum bill.		
16	** Per Commission Rule A.A.C. R-14-2-603(B)		
17	*** Per Commission Rule A.A.C. R14-2-603(D) - Months off the system times the monthly minimum.		
18			
19	(a) Plus cost of physical disconnection and reconnection including parts, labor overhead,		
20	and all applicable taxes, including income tax.		
21	(b) Cost includes parts, labor overhead, and all applicable taxes, including income tax.		
22			
23	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
24	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
25	TAX. PER COMMISSION RULE 14-2-608D(5).		
26			
27			
28			
29			
30			
31			
32			
33			
34			

**Coronado Utilities, Inc.**  
Test Year Ended December 31, 2008  
Service Line Installation Charges

Exhibit  
Schedule H-3  
Page 3  
Witness: Bourassa

Line

No.

1

2 Service Line Installation Charges

3

4

5

6

7

8 Service Line Size

Present  
Charge(a)

Proposed  
Charge(a)

9 4 Inch

At Cost

At Cost

10 6 Inch

At Cost

At Cost

11 8 Inch

At Cost

At Cost

12 10 Inch

At Cost

At Cost

13 12 Inch

At Cost

At Cost

14

15

16

17

18

19 (a) Cost includes parts, labor overhead, and all applicable taxes, including income tax.

20

21

22

23

24

25

26

27

28

29

30

31

32 N/T = No Tariff

33

34

35

36

37

38

39

40

**Coronado Utilities, Inc.**  
**Bill Comparison Present and Proposed Rates**  
 Residential

Exhibit  
 Schedule H-4  
 Page 1  
 Witness: Bourassa

Customer Clas:

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 46.50	\$ 54.73	\$ 8.23	17.70%

**Present Rates:**  
 Monthly Minimum: \$ 46.50

**Proposed Rates:**  
 Monthly Minimum: \$ 54.73

Average Usage	\$ 46.50	\$ 54.73	\$ 8.23	17.70%
-				
Median Usage	\$ 46.50	\$ 54.73	\$ 8.23	17.70%
-				

**Coronado Utilities, Inc.**  
Bill Comparison Present and Proposed Rates  
Customer Class: Commercial

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$	7.50	8.83	\$ 1.33	17.70%
1,000	17.30	20.36	3.06	17.70%
2,000	27.10	31.90	4.80	17.70%
3,000	36.90	43.43	6.53	17.70%
4,000	46.70	54.97	8.27	17.70%
5,000	56.50	66.50	10.00	17.70%
6,000	66.30	78.04	11.74	17.70%
7,000	76.10	89.57	13.47	17.70%
8,000	85.90	101.10	15.20	17.70%
9,000	95.70	112.64	16.94	17.70%
10,000	105.50	124.17	18.67	17.70%
12,000	125.10	147.24	22.14	17.70%
14,000	144.70	170.31	25.61	17.70%
16,000	164.30	193.38	29.08	17.70%
18,000	183.90	216.45	32.55	17.70%
20,000	203.50	239.52	36.02	17.70%
25,000	252.50	297.19	44.69	17.70%
30,000	301.50	354.87	53.37	17.70%
35,000	350.50	412.54	62.04	17.70%
40,000	399.50	470.21	70.71	17.70%
45,000	448.50	527.88	79.38	17.70%
50,000	497.50	585.56	88.06	17.70%
60,000	595.50	700.90	105.40	17.70%
70,000	693.50	816.25	122.75	17.70%
80,000	791.50	931.60	140.10	17.70%
90,000	889.50	1,046.94	157.44	17.70%
100,000	987.50	1,162.29	174.79	17.70%
<b>Present Rates:</b>				
Monthly Minimum: \$ 7.50				
Charge Per 100 Gallons 0.98				
<b>Proposed Rates:</b>				
Monthly Minimum: \$ 8.83				
Charge Per 100 Gallons 1.15346				
Average Usage	82.06	96.58	\$ 14.52	17.70%
7,608				
Median Usage	22.20	26.13	\$ 3.93	17.70%
1,500				

Coronado Utilities, Inc.  
Bill Comparison Present and Proposed Rates  
Customer Class: Mobile Home

Winter Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	Winter	Summer
-	\$ 7.50	\$ 8.83	\$ 1.33	17.70%		
1,000	64.50	75.92	11.42	17.70%		
2,000	121.50	143.01	21.51	17.70%		
3,000	178.50	210.09	31.59	17.70%		
4,000	235.50	277.18	41.68	17.70%		
5,000	292.50	344.27	51.77	17.70%		
6,000	349.50	411.36	61.86	17.70%		
7,000	406.50	478.45	71.95	17.70%		
8,000	463.50	545.54	82.04	17.70%		
9,000	520.50	612.63	92.13	17.70%		
10,000	577.50	679.72	102.22	17.70%		
12,000	691.50	813.90	122.40	17.70%		
14,000	805.50	948.07	142.57	17.70%		
16,000	919.50	1,082.25	162.75	17.70%		
18,000	1,033.50	1,216.43	182.93	17.70%		
20,000	1,147.50	1,350.61	203.11	17.70%		
25,000	1,432.50	1,686.05	253.55	17.70%		
30,000	1,717.50	2,021.50	304.00	17.70%		
35,000	2,002.50	2,356.94	354.44	17.70%		
40,000	2,287.50	2,692.39	404.89	17.70%		
45,000	2,572.50	3,027.83	455.33	17.70%		
50,000	2,857.50	3,363.28	505.78	17.70%		
60,000	3,427.50	4,034.17	606.67	17.70%		
70,000	3,997.50	4,705.06	707.56	17.70%		
80,000	4,567.50	5,375.95	808.45	17.70%		
90,000	5,137.50	6,046.84	909.34	17.70%		
100,000	5,707.50	6,717.73	1,010.23	17.70%		

**Present Rates:**  
Monthly Minimum: \$ 7.50 \$ 31.86  
Charge Per 100 Gallons \$ 0.57  
Charge per Occupied Space \$ -

**Proposed Rates:**  
Monthly Minimum: \$ 8.83 \$ 37.50  
Charge Per 100 Gallons \$ 0.67  
Charge per Occupied Space \$ -

Winter	
Average Usage	
969,267	\$ 5,532.32 \$ 6,511.54 \$ 979.22 17.70%
Median Usage	
1,233,600	\$ 7,039.02 \$ 8,284.93 \$ 1,245.91 17.70%
Summer	
Average Units	
215	\$ 6,855.21 \$ 8,068.58 \$ 1,213.37 17.70%

Coronado Utilities, Inc.  
Bill Comparison Present and Proposed Rates  
Customer Class: School

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 7.50	\$ 8.83	\$ 1.33	17.70%
1,000	10.62	12.50	1.88	17.70%
2,000	13.74	16.18	2.43	17.70%
3,000	16.87	19.85	2.99	17.70%
4,000	19.99	23.53	3.54	17.70%
5,000	23.11	27.20	4.09	17.70%
6,000	26.23	30.88	4.64	17.70%
7,000	29.35	34.55	5.20	17.70%
8,000	32.48	38.22	5.75	17.70%
9,000	35.60	41.90	6.30	17.70%
10,000	38.72	45.57	6.85	17.70%
12,000	44.96	52.92	7.96	17.70%
14,000	51.21	60.27	9.06	17.70%
16,000	57.45	67.62	10.17	17.70%
18,000	63.70	74.97	11.27	17.70%
20,000	69.94	82.32	12.38	17.70%
25,000	85.55	100.69	15.14	17.70%
30,000	101.16	119.07	17.91	17.70%
35,000	116.77	137.44	20.67	17.70%
40,000	132.38	155.81	23.43	17.70%
45,000	147.99	174.18	26.19	17.70%
50,000	163.60	192.56	28.96	17.70%
60,000	194.82	229.30	34.48	17.70%
70,000	226.04	266.05	40.01	17.70%
80,000	257.26	302.80	45.54	17.70%
90,000	288.48	339.54	51.06	17.70%
100,000	319.70	376.29	56.59	17.70%
Average Usage	\$ 190.02	\$ 223.66	\$ 33.63	17.70%
Median Usage	\$ 152.67	\$ 179.70	\$ 27.02	17.70%

**Present Rates:**  
Monthly Minimum: \$ 7.50  
Gallons in Minimum -  
Charge Per 100 Gallons 0.3122

**Proposed Rates:**  
Monthly Minimum: \$ 8.83  
Charge Per 100 Gallons 0.36746



**Coronado Utilities, Inc.**  
 Bill Comparison Present and Proposed Rates  
 Effluent

Exhibit  
 Schedule H-4  
 Page 5  
 Witness: Bourassa

Customer Class:

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase #DIV/0!
-	\$ -	\$ -	\$ -	
100,000	15.00	20.00	5.00	33.33%
200,000	30.00	40.00	10.00	33.33%
300,000	45.00	60.00	15.00	33.33%
400,000	60.00	80.00	20.00	33.33%
500,000	75.00	100.00	25.00	33.33%
600,000	90.00	120.00	30.00	33.33%
700,000	105.00	140.00	35.00	33.33%
800,000	120.00	160.00	40.00	33.33%
900,000	135.00	180.00	45.00	33.33%
1,000,000	150.00	200.00	50.00	33.33%
1,100,000	165.00	220.00	55.00	33.33%
1,200,000	180.00	240.00	60.00	33.33%
1,300,000	195.00	260.00	65.00	33.33%
1,400,000	210.00	280.00	70.00	33.33%
1,500,000	225.00	300.00	75.00	33.33%
1,600,000	240.00	320.00	80.00	33.33%
1,700,000	255.00	340.00	85.00	33.33%
1,800,000	270.00	360.00	90.00	33.33%
1,900,000	285.00	380.00	95.00	33.33%
2,000,000	300.00	400.00	100.00	33.33%
2,100,000	315.00	420.00	105.00	33.33%
2,200,000	330.00	440.00	110.00	33.33%
2,300,000	345.00	460.00	115.00	33.33%
2,400,000	360.00	480.00	120.00	33.33%
2,500,000	375.00	500.00	125.00	33.33%
2,600,000	390.00	520.00	130.00	33.33%
Average Usage				
6,178,667	\$ 926.80	\$ 1,235.73	\$ 308.93	33.33%
Median Usage				
6,366,500	\$ 954.98	\$ 1,273.30	\$ 318.33	33.33%

**Present Rates:**  
 Monthly Minimum: \$ -  
 Charge Per 1,000 Gallons \$ 0.150

**Proposed Rates:**  
 Monthly Minimum: \$ -  
 Charge Per 1,000 Gallons \$ 0.200

Exhibit  
Schedule H-5  
Page 1  
Witness: Bourassa

[illegible]

Exhibit  
Schedule H-5  
Page 2  
Witness: Bourassa

[illegible]

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Customer Class: Commercial

Exhibit  
Schedule H-5  
Page 2  
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
38,001	39,000													-	711	3,433
39,001	40,000		1		1									2	713	3,512
40,001	41,000		1											1	714	3,552
41,001	42,000													-	714	3,552
42,001	43,000													-	714	3,552
43,001	44,000													-	714	3,552
44,001	45,000													-	714	3,552
45,001	46,000				1				1					2	716	3,643
46,001	47,000													-	716	3,643
47,001	48,000													-	716	3,643
48,001	49,000													-	716	3,643
49,001	50,000													-	716	3,643
50,001	51,000													-	716	3,643
51,001	52,000												1	1	717	3,695
52,001	53,000													-	717	3,695
53,001	54,000	1												1	718	3,748
54,001	55,000	1												1	719	3,803
55,001	56,000									1				1	720	3,858
56,001	57,000										1			1	721	3,915
57,001	58,000													-	721	3,915
58,001	59,000													-	721	3,915
59,001	60,000													-	722	3,974
60,001	61,000								1					2	724	4,095
61,001	62,000													-	724	4,095
62,001	63,000													-	724	4,095
63,001	64,000													-	724	4,095
64,001	65,000					1								1	725	4,160
65,001	66,000													-	725	4,160
66,001	67,000													-	725	4,160
67,001	68,000													-	725	4,160
68,001	69,000													-	725	4,160
69,001	70,000													-	725	4,160
70,001	71,000													-	725	4,160
71,001	72,000						1							1	726	4,231
72,001	73,000										1			1	727	4,304
73,001	74,000							1						1	728	4,377
74,001	75,000												1	1	729	4,452
75,001	76,000							1						2	731	4,603
76,001	77,000													-	731	4,603

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Customer Class: Commercial

Exhibit  
Schedule H-5  
Page 2  
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumul- ative Billing	Cumul- ative Gallons (in 1,000s)
77,001	78,000													-	731	4,603
78,001	79,000													1	732	4,681
79,001	80,000													-	732	4,681
80,001	81,000													1	733	4,762
81,001	82,000													-	733	4,762
82,001	83,000													-	733	4,762
83,001	84,000													-	733	4,762
84,001	85,000													-	733	4,762
85,001	86,000													1	734	4,847
86,001	87,000													-	734	4,847
87,001	88,000													-	734	4,847
88,001	89,000													-	734	4,847
89,001	90,000													-	735	4,937
90,001	91,000			1										1	735	4,937
91,001	92,000													-	735	4,937
92,001	93,000													-	735	4,937
93,001	94,000													-	735	4,937
94,001	95,000													-	735	4,937
95,001	96,000									1				2	737	5,128
96,001	97,000													-	737	5,128
97,001	98,000													-	737	5,128
98,001	99,000													1	738	5,226
99,001	100,000													-	738	5,226
128,300	128,300			1										1	739	5,355
140,600	140,600													1	740	5,495
142,300	142,300													1	741	5,638
-	-													-	741	5,638
-	-													-	741	5,638
-	-													-	741	5,638
-	-													-	741	5,638
<b>Totals</b>															741	7,608
															1,500	62
															Average Usage	
															Median Usage	
															Average # Customers	

Exhibit  
Schedule H-5  
Page 3  
Witness: Bourassa

[illegible]

**Coronado Utilities, Inc.**  
 Test Year Ended December 31, 2008  
 Mobile Home

Exhibit  
 Schedule H-5  
 Page 3  
 Witness: Bourassa

Customer Class:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
40,001	41,000													-	1,291	-
41,001	42,000													-	1,291	-
42,001	43,000													-	1,291	-
43,001	44,000													-	1,291	-
44,001	45,000													-	1,291	-
45,001	46,000													-	1,291	-
46,001	47,000													-	1,291	-
47,001	48,000													-	1,291	-
48,001	49,000													-	1,291	-
49,001	50,000													-	1,291	-
50,001	51,000													-	1,291	-
51,001	52,000													-	1,291	-
52,001	53,000													-	1,291	-
53,001	54,000													-	1,291	-
54,001	55,000													-	1,291	-
55,001	56,000													-	1,291	-
56,001	57,000													-	1,291	-
57,001	58,000													-	1,291	-
58,001	59,000													-	1,291	-
59,001	60,000													-	1,291	-
60,001	61,000													-	1,291	-
61,001	62,000													-	1,291	-
62,001	63,000													-	1,291	-
63,001	64,000													-	1,291	-
64,001	65,000													-	1,291	-
65,001	66,000													-	1,291	-
66,001	67,000													-	1,291	-
67,001	68,000													-	1,291	-
68,001	69,000													-	1,291	-
69,001	70,000													-	1,291	-
70,001	71,000													-	1,291	-
71,001	72,000													-	1,291	-
72,001	73,000													-	1,291	-
73,001	74,000													-	1,291	-
74,001	75,000													-	1,291	-
75,001	76,000													-	1,291	-
76,001	77,000													-	1,291	-
77,001	78,000													-	1,291	-
78,001	79,000													-	1,291	-
79,001	80,000													-	1,291	-
80,001	81,000													-	1,291	-

Coronado Utilities, Inc.  
 Test Year Ended December 31, 2008  
 Mobile Home

Exhibit  
 Schedule H-5  
 Page 3  
 Witness: Bourassa

Customer Class:

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumulative Billing	Cumulative Gallons (in 1,000's)
81,001	82,000													-	1,291	-
82,001	83,000													-	1,291	-
83,001	84,000													-	1,291	-
84,001	85,000													-	1,291	-
85,001	86,000													-	1,291	-
86,001	87,000													-	1,291	-
87,001	88,000													-	1,291	-
88,001	89,000													-	1,291	-
89,001	90,000													-	1,291	-
90,001	91,000													-	1,291	-
91,001	92,000													-	1,291	-
92,001	93,000													-	1,291	-
93,001	94,000													-	1,291	-
94,001	95,000													-	1,291	-
95,001	96,000													-	1,291	-
96,001	97,000													-	1,291	-
97,001	98,000													-	1,291	-
98,001	99,000													-	1,291	-
99,001	100,000													-	1,291	-
189,900	189,900	1												1	1,292	190
233,200	233,200			1										1	1,293	423
233,600	233,600		1											1	1,294	657
840,700	840,700	1												1	1,295	1,497
1,233,600	1,233,600													1	1,296	2,731
1,237,100	1,237,100												1	1	1,297	3,968
1,330,600	1,330,600				1									1	1,298	5,299
1,635,000	1,635,000									1				1	1,299	6,934
1,789,700	1,789,700											1		1	1,300	8,723
														-	1,300	8,723
Totals		2	2	2	222	219	207	211	217	215	1	1	1	1,300		
														969,267	Average Usage	
														1,233,600	Median Usage	



[illegible]

Exhibit  
Schedule H-5  
Page 4  
Witness: Bourassa

[illegible]

Exhibit  
Schedule H-5  
Page 4  
Witness: Bourassa

Customer Class:

[illegible]

Totals	4	4	4	4	4	4	4	4	4	4	48
											58,463
											Average Usage
											Median Usage
											46,500
											Average # Customers
											4

Exhibit  
Schedule H-5  
Page 5  
Witness: Bourassa

[illegible]

Exhibit  
Schedule H-5  
Page 5  
Witness: Bourassa

[illegible]

Coronado Utilities, Inc.  
Test Year Ended December 31, 2008  
Customer Class: Effluent

Exhibit  
Schedule H-5  
Page 5  
Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumul- ative Billing	Cumul- ative Gallons (in 1,000's)
78,000	78,000													-	-	-
79,000	79,000													-	-	-
80,000	80,000													-	-	-
81,000	81,000													-	-	-
82,000	82,000													-	-	-
83,000	83,000													-	-	-
84,000	84,000													-	-	-
85,000	85,000													-	-	-
86,000	86,000													-	-	-
87,000	87,000													-	-	-
88,000	88,000													-	-	-
89,000	89,000													-	-	-
90,000	90,000													-	-	-
91,000	91,000													-	-	-
92,000	92,000													-	-	-
93,000	93,000													-	-	-
94,000	94,000													-	-	-
95,000	95,000													-	-	-
96,000	96,000													-	-	-
97,000	97,000													-	-	-
98,000	98,000													-	-	-
99,000	99,000													-	-	-
100,000	100,000													-	-	-
3,680,000	3,680,000			1										1	1	3,680
5,442,000	5,442,000		1											1	2	9,122
5,588,000	5,588,000	1												1	3	14,710
5,925,000	5,925,000												1	1	4	20,635
6,241,000	6,241,000									1				1	5	26,876
6,492,000	6,492,000								1					1	6	33,368
6,707,000	6,707,000								1					1	7	40,075
6,726,000	6,726,000												1	1	8	46,801
6,771,000	6,771,000												1	1	9	53,572
6,777,000	6,777,000				1									1	10	60,349
6,810,000	6,810,000					1								1	11	67,159
6,985,000	6,985,000			1										1	12	74,144
														1		74,144
Totals		1	1	1	1	1	1	1	1	1	1	1	1	12		
														Average Usage		6,178,667
														Median Usage		6,366,500

Coronado Utilities, Inc.  
 Test Year Ended December 31, 2008  
 Customer Class: Effluent

Exhibit  
 Schedule H-5  
 Page 5  
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan-08	Month of Feb-08	Month of Mar-08	Month of Apr-08	Month of May-08	Month of Jun-08	Month of Jul-08	Month of Aug-08	Month of Sep-08	Month of Oct-08	Month of Nov-08	Month of Dec-08	Total Year	Cumul- ative Billing	Cumul- ative Gallons (in 1,000's)

Average # Customers

1 FENNEMORE CRAIG, P.C.  
Jay L. Shapiro (No. 014650)  
2 Stephanie Johnson (No. 026282)  
3003 N. Central Ave.  
3 Suite 2600  
Phoenix, Arizona 85012  
4 Attorneys for Coronado Utilities, Inc.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7  
8 IN THE MATTER OF THE  
APPLICATION OF CORONADO  
9 UTILITIES, INC, AN ARIZONA  
CORPORATION, FOR A  
10 DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
11 PROPERTY AND FOR INCREASES IN  
ITS WATER AND WASTEWATER  
12 RATES AND CHARGES FOR UTILITY  
SERVICE BASED THEREON.

DOCKET NO:

SW-04305A-09-\_\_\_\_\_

13  
14  
15  
16  
17 **DIRECT TESTIMONY OF**  
18 **THOMAS J. BOURASSA**  
19 **(COST OF CAPITAL)**

20 **JUNE 3, 2009**  
21  
22  
23  
24  
25  
26



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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

5 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT CONCURRENTLY**  
6 **FILED DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT,**  
7 **REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?**

8 A. Yes, and all of my background information and testimony regarding my  
9 qualifications is contained in that portion of my direct testimony.

10 **II. SUMMARY OF TESTIMONY AND THE PROPOSED COST OF CAPITAL**  
11 **FOR THE COMPANY**

12 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR DIRECT**  
13 **TESTIMONY?**

14 A. This portion of my direct testimony will focus on cost of capital issues. I will  
15 testify in support of Coronado Utilities, Inc.'s ("Coronado" or "the Company")  
16 proposed rate of return on its fair value rate base. I am sponsoring the Company's  
17 D Schedules, which are attached to this testimony. As noted above, I am also  
18 sponsoring direct testimony that addresses the Company's rate base, income  
19 statement (revenue and operating expenses), required increase in revenue, and its  
20 rate design and proposed rates and charges for service. For the convenience of the  
21 Commission and the parties, that testimony and my related schedules are prepared  
22 in separate volumes.

23 **Q. HAVE YOU PREPARED ANY SCHEDULES AND ATTACHMENTS TO**  
24 **ACCOMPANY YOUR COST OF CAPITAL TESTIMONY?**

25 A. Yes. I have prepared 20 schedules that support my testimony and one attachment.  
26

1 **Q. PLEASE SUMMARIZE YOUR COST OF CAPITAL TESTIMONY.**

2 A. I determined that the Company's cost of equity falls in the range of 14.0 percent to  
3 20.0 percent with the midpoint of the range at 17.3 percent. Even though my  
4 analysis justifies a 17.3 percent return on equity ("ROE"), I am recommending a  
5 ROE of only 14.0 percent.

6 My recommendation is based on (i) cost of equity estimates using constant  
7 growth and multi-stage growth discounted cash flow ("DCF") models and the  
8 capital asset pricing model ("CAPM") for the sample group of publicly traded  
9 utilities, (ii) my review of the economic conditions expected to prevail during the  
10 period in which new rates will be in effect, (iii) my judgments about the risks  
11 associated with small utilities like Coronado not captured by the market data for  
12 publicly traded water utilities used in my study, (iv) the financial risk associated  
13 with the level of debt in Coronado's capital structure, and (v) additional specific  
14 business and operational risks faced by Coronado Company.

15 **Q. PLEASE SUMMARIZE THE APPROACH YOU USED TO ESTIMATE**  
16 **THE COST OF EQUITY FOR THE COMPANY.**

17 A. The cost of equity for Coronado cannot be estimated directly because Coronado's  
18 common stock is not publicly traded and there is no market data for Coronado.  
19 Consequently, I applied the DCF and CAPM models using data from a sample of  
20 water utilities selected from the Value Line Investment Survey. There are six  
21 water utilities in my sample: American States Water, Aqua America, California  
22 Water, Connecticut Water, Middlesex Water, and SJW Corp. As explained later in  
23 my testimony, these companies aren't really comparable to Coronado, but they are  
24 water utilities for which market data are available and because the Arizona  
25 Commission's Utilities Division Staff has relied on data for these water utilities in  
26 a number of recent water and sewer utility rate cases.

1 My DCF analyses indicate ROE's in the range of 11.1 percent to 12.6  
2 percent with a midpoint of 11.9 percent. The CAPM analysis, again using the  
3 same sample group, indicates ROE's in the range of 10.1 percent to 19.5 percent is  
4 appropriate with a midpoint of 14.8 percent. Both the DCF and CAPM ranges are  
5 before consideration of company specific risks.

6 My ROE estimates after consideration of company specific risks is in the  
7 range of 14.6 percent to 20.0 percent with a midpoint of 17.3 percent. Given  
8 Coronado's relatively small size compared to the large publicly traded utilities used  
9 in my sample, the regulatory methods and policies used in this jurisdiction, and  
10 other firm-specific factors, it is my opinion that at the present time, a cost of equity  
11 of 17.3 percent is warranted.

12 However, my recommendation of 14.0 percent balances my judgment about  
13 the degree of financial and business risk associated with an investment in Coronado  
14 as well as consideration of the current economic environment and the Company's  
15 desire to help reduce the impact on rate payers. A summary of my cost of equity  
16 analysis result is shown on Schedule D-4.1.

17 **III. OVERVIEW OF THE RELATIONSHIP BETWEEN RISK AND THE**  
18 **EXPECTED RETURN ON AN INVESTMENT**

19 **Q. HOW IS THE COST OF EQUITY TYPICALLY ANALYZED?**

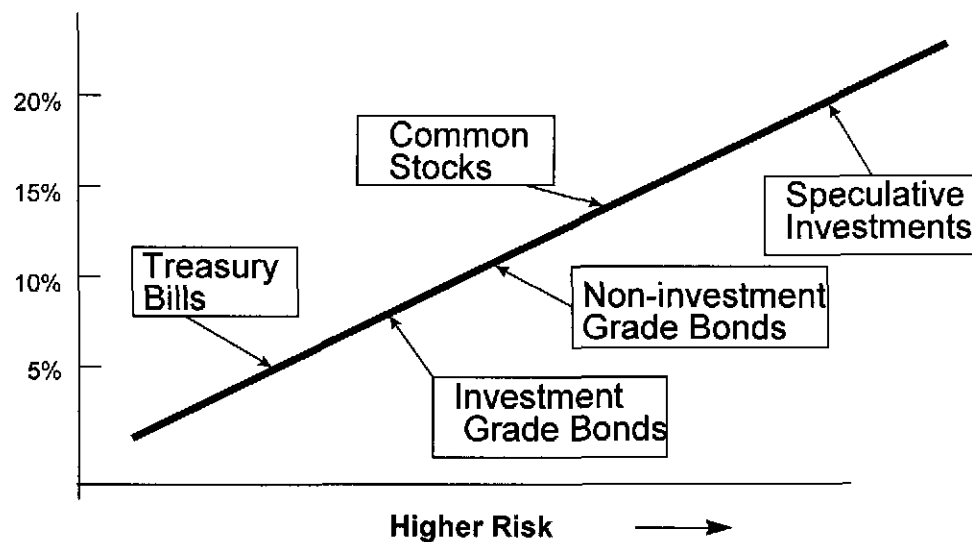
20 A. The cost of equity is the rate of return that equity investors expect to receive on  
21 their investment. Investors can choose to invest in many types of assets, not simply  
22 publicly traded stock. Each investment will have varying degrees of risk, ranging  
23 from relatively low risk assets such as Treasury securities to somewhat higher risk  
24 corporate bonds to even higher risk common stocks. As the level of risk increases,  
25 investors require higher returns on their investment. Finance models that are used  
26 to estimate the cost of equity often rely on this basic concept.

1 Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN  
2 CONCEPT?

3 A. Yes. The following graph depicts the risk-return relationship that has become  
4 widely known as the Capital Market Line ("CML"). The CML illustrates in a  
5 general way the risk-return relationship.

## 6 7 The Capital Market Line (CML)

8  
9  
10 Expected Rate of Return



20 The CML can be viewed as a continuum of the available investment opportunities  
21 for investors. Investment risk increases moving upward and to the right along the  
22 CML. Again, the expected return increases with the risk.

23 Q. HOW DOES THE RISK-RETURN TRADE-OFF CONCEPT WORK IN  
24 THE CAPITAL MARKET?

25 A. As already suggested by the CML, the allocation of capital in a free market  
26 economy is based upon the relative risk of, and expected return from, an

1 investment. In general, investors rank investment opportunities in the order of their  
2 relative risks. Investment alternatives in which the expected return is  
3 commensurate with the perceived risk become viable investment options. If all  
4 other factors remain equal, the greater the risk, the higher the rate of return  
5 investors will require to compensate investors for the possibility of loss of either  
6 the principal amount invested or the expected annual income from such investment.

7 Short-term Treasury bills provide a high degree of certainty and in nominal  
8 terms (after considering inflation) are considered virtually risk free. Long-term  
9 bonds and preferred stocks, having priority claims to assets and fixed income  
10 payments, are relatively low risk, but are not risk free. The market values of long-  
11 term bonds often fluctuate when government policies or other factors cause interest  
12 rates to change. Common stocks are higher and to the right on the CML continuum  
13 because they are exposed to more risk. Common stock risk includes the nature of  
14 the underlying business and financial strength of the issuing corporation as well as  
15 market-wide factors, such as general changes in capital costs.

16 The capital markets reflect investor expectations and requirements each day  
17 through market prices. Prices for stocks and bonds change to reflect investor  
18 expectations and the relative attractiveness of one investment versus another.  
19 While the example provided above seems straightforward, returns on common  
20 stocks are not directly observable in advance, in contrast to debt or preferred stocks  
21 with fixed payment terms. This means that these returns must be estimated from  
22 market data. Estimating the cost of equity capital is a matter of informed judgment  
23 about the relative risk of the company in question and the expected rate of return  
24 characteristics of other alternative investments.

1 **Q. HOW IS THE COST OF EQUITY FOR A PARTICULAR UTILITY**  
2 **DETERMINED?**

3 A. The estimation of a utility's cost of equity is complex. It requires an analysis of the  
4 factors influencing the cost of various types of capital, such as interest on long-  
5 term debt, dividends on preferred stock, and earnings on common equity. The data  
6 for such an analysis comes from highly competitive capital markets, where the firm  
7 raises funds by issuing common stock, selling bonds, and by borrowing (both long-  
8 and short-term) from banks and other financial institutions. In the capital markets,  
9 the cost of capital, whether the capital is in the form of debt or equity, is  
10 determined by two important factors:

- 11 1) The pure or real rate of interest, often called the risk-free rate of  
12 interest; and,
- 13 2) The uncertainty or risk premium (the compensation the investor  
14 requires over and above the real or pure rate of interest for subjecting  
15 his capital to additional risk).

16 **Q. PLEASE DISCUSS THESE FACTORS IN GREATER DETAIL.**

17 A. The pure rate of interest essentially reflects both the time preference for and the  
18 productivity of capital. From the standpoint of the individual, it is the rate of  
19 interest required to induce the individual to forgo present consumption and offer  
20 the funds thus saved to others for a specified length of time. Moreover, the pure  
21 rate of interest concept is based on the assumption that no uncertainty affects the  
22 investment undertaken by the individual, i.e., there is no doubt that the periodic  
23 interest payments will be made and the principal returned at the end of the time  
24 period. In reality, investments without risk do not exist. Every commitment of  
25 funds involves some degree of uncertainty.

26 Turning to the second factor affecting the cost of capital, it is generally

1 accepted that the higher the degree of uncertainty, the higher the cost of capital.  
2 Investors are regarded as risk adverse and require that the rate of return increase as  
3 the risk (uncertainty) associated with an investment increase.

4 **Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS**  
5 **DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?**

6 A. Yes. Conceptually,

7 [1] Required Return for Common Stocks = Return on a risk-free asset + Risk Premium  
8

9 where the risk premium investors require for common stocks will be higher than  
10 the risk premium they require for investment grade bonds. This relationship is  
11 depicted in the graph of the CML above. As I will discuss later in this testimony,  
12 this concept is the basis of risk premium methods, such as the CAPM, that are used  
13 to estimate the cost of equity.

14 **Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL**  
15 **MARKETS?**

16 A. In the past 10 years, inflation and capital market costs have generally declined.  
17 Interest rates have been lower than in previous decades. Past inflation, as  
18 measured by the Consumer Price Index, has been at relatively low levels in the past  
19 10 years.

20 The roughly 6 year span of economic expansion after the 2001 recession  
21 began to wane in 2007. Year-over-year Gross Domestic Product ("GDP") growth<sup>1</sup>  
22 for 2004, 2005, and 2006 was 3.6 percent, 2.9 percent, and 2.8 percent,  
23 respectively. GDP growth was, in part, spurred on by low interest rates during this  
24 period. The Federal Reserve, having lowered the target Federal Funds rate to 1.0  
25

26 <sup>1</sup> GDP percentage change based on current dollars (1930-2008).



1 percent by the end of 2003, began raising interest rates in 2004 to help keep the  
2 economy from overheating and to help keep inflation in check. By mid-2006, the  
3 Federal Reserve had raised the target Federal Funds rate to 5.25 percent.

4 The economic expansion was broad, taking in the major consumer and  
5 industrial sectors for much of its span. However, the economic expansion also  
6 brought excesses, particularly in the areas of housing, lending practices, and the  
7 financial markets.

8 Economic growth slowed in 2007. For 2007, the year-over-year GDP  
9 growth had dropped to 2.0 percent with the last quarter of 2007 at a negative 0.2  
10 percent. The slow economic growth combined with the excesses during the  
11 economic expansion of the previous 6 years has created turmoil in the credit,  
12 financial, and housing markets. This turmoil continues to have a significant drag  
13 on the economy. Federal Reserve Chairman Ben Bernanke noted in Congressional  
14 testimony late last year that financial markets are currently under considerable  
15 stress and that broader retrenchment in the willingness of investors to bear risk,  
16 troubles in the credit markets and a weaker outlook of economic growth have  
17 added to the stresses on economic growth.

18 In order to address the weakening economy, the Federal Reserve, starting in  
19 September 2007, has taken a series of rate cut actions (525 basis points). The  
20 reductions in interest rates by the Federal Open Market Committee ("FOMC")  
21 were taken in order to promote economic growth and to mitigate risks to economic  
22 activity. The target Federal Funds rate stands at zero to .25 percent.

23 GDP growth for the first three quarters of 2008 was 0.9 percent, 2.8 percent,  
24 and a negative 0.5 percent, respectively. The Bureau of Economic Analysis of the  
25 U.S. Department of Commerce recently released its final estimate of 2008 fourth  
26 quarter GDP growth at a negative 6.2 percent. According to a recent Blue Chip

1 Financial forecast (February 1, 2009), many economists now assume the current  
2 recession will be the longest and deepest recession in Post-World War II history.  
3 The Blue Chip Financial Forecast ("Blue Chip") consensus forecasts (April 1,  
4 2009) of real GDP growth for the first and second quarter of 2009 are expected to  
5 be a negative 5.7 percent and a negative 2.4 percent, respectively. While economic  
6 growth is expected to turn positive by second half of 2009, recovery is expected to  
7 be slow as there are risks to the U.S. economy from a far more serious worldwide  
8 recession, the failure of the housing market to stabilize in the year ahead, and  
9 continued weakness in business and consumer spending.

10 **Q. WHAT ABOUT THE STATUS OF THE CREDIT MARKETS?**

11 A. One of the biggest risks to the economy stems from the conditions in the credit  
12 markets. Without increased access and more affordable credit for consumers and  
13 businesses, the prospects for a meaningful economic recovery are dim. The stock  
14 market has had the worst year since 1931 and 1926 and this has produced a  
15 massive safe haven bid for Treasury debt. Recently, the three month Treasury bill  
16 yields dropped to near zero, and yields on the two, five, ten and thirty year yield  
17 treasuries fell to the lowest levels since the Treasury began regular sales of the  
18 securities. More recently, yields on longer dated Treasury yields have begun to  
19 rise better than 50 basis points over their December 2008 levels. Some analysts  
20 attribute the run up in yields to rising jitters among investors about the tidal wave  
21 of Federal debt issued earlier this year and to the expected debt to be issued to fund  
22 the massive \$800 billion "stimulus" package recently enacted by Congress and  
23 signed by the President and to the expected additional billions of dollars above the  
24 already authorized \$750 billion Trouble Asset Repurchase Program ("TARP")  
25 passed last year to address the weaknesses in the credit markets.

26

1 In short, the current capital markets reflect the uncertainty and low  
2 confidence of investors in the financial markets and in the future prospects of  
3 economic growth and concerns over higher inflation over the next several years.  
4 Naturally, despite relatively low U.S. Treasury yields over the past several years,  
5 the premiums required for investors to hold and buy securities is much higher than  
6 in the recent past due to this uncertainty.

7 **Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND**  
8 **INTEREST RATES?**

9 A. Yes. All things being equal, the cost of equity moves in the same direction as  
10 interest rates. Lower interest rates on U.S. Treasuries ("risk-free" rate) imply  
11 lower equity returns and visa versa. However, as indicated by Equation 1 above,  
12 the risk premium required to compensate investors also impacts the cost of equity.  
13 Higher risk premiums required by investors imply higher equity costs and visa  
14 versa. Risk premiums are impacted by uncertainty in future interest rates, business  
15 and economic conditions, expected inflation, and other risk factors including  
16 interest rate risk, business risk, regulatory risk, financial risk, construction risk, and  
17 liquidity risk.

18 **Q. EVERYDAY WE SEEM TO HEAR MORE SOUR ECONOMIC NEWS.**  
19 **HOW DOES ALL THIS BAD NEWS IMPACT INVESTORS?**

20 A. It makes investors want to hold on to their money and put it in low risk  
21 investments. The flight to quality and low risk investments as the stock market  
22 began to tumble last year drove treasury yields to very low levels. But, as noted  
23 earlier, the federal government has and is expected to significantly increase its  
24 borrowing in order to "stimulate" the economy and address systemic problems in  
25 the credit markets. This in turn, has resulted in increasing yields on Treasuries as  
26

1 investors get jittery about the risks of the massive debt load the federal government  
2 is taking on.

3 **Q. IS CORONADO AFFECTED BY THESE SAME MARKET**  
4 **UNCERTAINTIES AND CONCERNS?**

5 A. Yes, in general, all investors are impacted by bad economic news, and the  
6 Company's investors are not immune to uncertainty. In the current economic  
7 environment, even large publicly traded companies are feeling the impact.  
8 Investment grade bond (Baa) yields rose to over 9 percent towards the end of last  
9 year and are currently at around 8.4 percent (April 16, 2009). Recent yields on  
10 investment grade bonds have been similar to the yields during the 2001 recession.  
11 Utilities are not immune to the higher capital costs of the current economic  
12 environment either. The average beta (a measurement of market risk) for the water  
13 utility sample companies has risen significantly over the past couple of years.  
14 Borrowing costs for utilities have also risen sharply. In November 2008, American  
15 Water Capital Corp., the credit facility for American Water (AWK), issued  
16 \$75 million of senior debt at 10%.

17 As discussed above, capital costs have risen significantly over the past year  
18 or so. And, smaller utilities like Coronado generally feel the impact worse because  
19 they are small, with a small customer base and an inability to attract capital.

20 **Q. WHAT ARE THE RECENT DEVELOPMENTS IN THE WATER UTILITY**  
21 **INDUSTRY AFFECTING UTILITY INVESTMENTS AND THE MARKET?**

22 A. On the whole, the water and wastewater utility industry is expected to continue to  
23 confront increasing infrastructure demand. According to the *Value Line Investment*  
24 *Survey*, many utilities have facilities that are decades old and in need of significant  
25 maintenance and, in some cases, massive renovation and replacement. In addition,  
26 the EPA and state and local regulators continue to impose more stringent

1 environmental quality and operational standards. Additional operational  
2 requirements have also been imposed to address the threat of bio-terrorism on U.S.  
3 water systems. As infrastructure costs continue to climb, many smaller companies  
4 are at a serious disadvantage. Without sufficient resources to fund improvements  
5 to meet new and more stringent requirements, many smaller companies are being  
6 forced to sell to larger utilities, which have greater operational flexibility and  
7 resources, as well as access to capital.

8 **Q. WOULD YOU PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF**  
9 **RISK ON CAPITAL COSTS?**

10 A. With reference to specific utilities, risk is often discussed as consisting of two  
11 separate types of risk: business risk and financial risk.

12 Business risk, the basic risk associated with any business undertaking, is the  
13 uncertainty associated with the enterprise's day-to-day operations. In essence, it is  
14 a function of the normal day-to-day business environment, both locally and  
15 nationally. Business risks include the condition of the economy and capital  
16 markets, the state of labor markets, regional stability, government regulation,  
17 technological obsolescence, and other similar factors that may impact demand for  
18 the business product and its cost of production. For utilities, business risk also  
19 includes the volatility of revenues due to abnormal weather conditions, degree of  
20 operational leverage, regulation, and regulatory climate. Regulation, for example,  
21 can compound the business risk if it is unpredictable in reacting to cost increases  
22 both in terms of the time lag and magnitude. Regulatory lag makes it difficult to  
23 earn a reasonable return particularly in an inflationary environment and/or when  
24 there is significant lag between the timing of investment in capital projects and its  
25 recognition in rates. Put simply, the greater the degree of uncertainty regarding the  
26 various factors affecting a company's business, the greater the risk of an

1 investment in a company and the greater the compensation required by the  
2 investor.

3 Financial risk, on the other hand, concerns the distribution of business risk  
4 to the various capital investors in the utility. As I discussed earlier, permanent  
5 capital is normally divided into three categories: long-term debt, preferred stock,  
6 and common equity. Because common equity owners have only a residual claim  
7 on earnings after debt and preferred stockholders are paid, financial risk tends to be  
8 concentrated in that element of the firm's capital. Thus, a decision by management  
9 to raise additional capital by issuing additional debt concentrates even more of the  
10 financial risk of the utility in the common equity owners.

11 An important component of financial risk is construction risk. Construction  
12 risk refers to the magnitude of a company's capital budget. If a company has a  
13 large construction budget relative to internally generated cash flows it will require  
14 external financing. It is important that companies have access to capital funds on  
15 reasonable terms and conditions. Utilities are more susceptible to construction risk  
16 for two reasons. First, utilities generally have high capital requirements to build  
17 plant to serve customers. Second, utilities have a mandated obligation to serve  
18 leaving less flexibility both in the timing and discretion of scheduling capital  
19 projects. This is compounded by the limited ability to wait for more favorable  
20 market conditions to raise the capital necessary to fund the capital projects.

21 Although often discussed separately, the two types of risks (business and  
22 financial) are interrelated. Specifically, a common equity investor may seek to  
23 offset exposure to high financial risk by investing in a firm perceived to have a low  
24 degree of business risk. In other words, the total risk to an investor would be high  
25 if the enterprise was characterized as a high business risk with a large portion of its  
26 permanent capital financed with senior debt. To attract capital under these

1 circumstances, the firm would have to offer higher rates of return to its common  
2 equity investors.

3 **IV. THE MEANING OF "JUST AND REASONABLE" RATE OF RETURN**

4 **Q. HAVE THE COURTS SET FORTH ANY CRITERIA THAT GOVERN THE**  
5 **RATE OF RETURN THAT A UTILITY'S RATES SHOULD PRODUCE?**

6 A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for  
7 determining whether a rate of return is reasonable in *Bluefield Water Works and*  
8 *Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679,  
9 692-93 (1923):

10 A public utility is entitled to such rates as will permit it to earn a  
11 return on the value of the property which it employs for the  
12 convenience of the public equal to that generally being made at the  
13 same time and in the same general part of the country on investments  
14 on other business undertaking which are attended by corresponding  
15 risks and uncertainties .... The return should be reasonably sufficient  
16 to assure confidence in the financial soundness of the utility and  
should be adequate, under efficient and economical management to  
maintain and support its credit and enable it to raise money necessary  
for the proper discharge of its public duties. A rate of return may be  
reasonable at one time and become too high or too low by changes  
affecting opportunities for investment, the money market, and  
business conditions generally.

17 In summary, under *Bluefield Water Works*:

- 18 (1) The rate of return should be similar to the return in businesses with  
19 similar or comparable risks;  
20 (2) The return should be sufficient to ensure the confidence in the  
21 financial integrity of the utility; and  
22 (3) The return should be sufficient to maintain and support the utility's  
23 credit.

24 **Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY**  
25 **PROCEEDINGS?**

26 A. Yes, but the application of the "reasonableness" criteria laid down by the Supreme

1 Court has resulted in controversy. The typical method of computing the overall  
2 cost of capital is quite straightforward: it is the composite, weighted cost of the  
3 various classes of capital (debt, preferred stock, and common equity), used by the  
4 utility. The weighting is done by calculating the proportion that each class of  
5 capital bears to total capital. However, there is no consensus regarding the best  
6 method of estimating the cost of equity capital. The increasing regulatory  
7 emphasis on objectivity in determining the rate of return has resulted in a  
8 proliferation of market-based finance models that are used in equity return  
9 determination. As will be discussed more fully below, however, none of these  
10 models are universally accepted as the "correct" means of estimating the ROE.

11 **V. THE ESTIMATED COST OF EQUITY FOR CORONADO**

12 **A. The Publicly Traded Utilities that Comprise the Sample Group Used to**  
13 **Estimate the Company's Cost of Equity.**

14 **Q. PLEASE BRIEFLY DESCRIBE THE APPROACH YOU FOLLOWED IN**  
15 **YOUR COST OF CAPITAL ANALYSIS FOR CORONADO.**

16 A. As I have stated, estimating the cost of equity is a matter of informed judgment.  
17 The development of an appropriate rate of return for a regulated enterprise involves  
18 a determination of the level of risk associated with that enterprise and the  
19 determination of an appropriate return for that risk level. Practitioners employ  
20 various techniques that provide a link to actual capital market data and assist in  
21 defining the various relationships that underlie the equity cost estimation process.

22 Since Coronado is not publicly traded, the information required to directly  
23 estimate its cost of equity is not available. Accordingly, I used a sample group of  
24 water utilities as a starting point to develop an appropriate cost of equity for  
25 Coronado. There are six water utilities included in the sample group: American  
26 States Water, Aqua America, California Water, Connecticut Water, Middlesex



1 Water, and SJW Corp. All these companies are followed by the *Value Line*  
2 *Investment Survey*.

3 **Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY**  
4 **COMPARABLE TO CORONADO?**

5 A. No, but they are utilities for which market data is available. All of them are  
6 regulated, they primarily provide water service, although some provide both water  
7 and wastewater services, and their primary source of revenues is from regulated  
8 services. Therefore, they provide a useful starting point for developing a cost of  
9 equity for the Company. I emphasized "starting point" because Coronado is not  
10 publicly traded. Additionally, there is no market data available for smaller utilities,  
11 like Coronado, that can be used to develop cost of equity estimates.

12 **Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY**  
13 **SAMPLE CAPTURE ALL OF THE MARKET RISKS THAT CORONADO**  
14 **MIGHT FACE IF IT WERE PUBLICLY TRADED?**

15 A. In my opinion, no. As I stated, there is no comparable market data for utility  
16 companies the size of Coronado. The average revenue of the water utility sample  
17 companies is over 320 times that of Coronado, and the average net plant of the  
18 water utility sample companies is 224 times that of Coronado. Even the smallest  
19 company in the sample group, Connecticut Water, has over 68 times the net plant  
20 of Coronado, and nearly 63 times the revenues.

21 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE WATER**  
22 **UTILITIES IN YOUR SAMPLE.**

23 A. Schedule D-4.2 lists the operating revenues and net plant for the six water utilities  
24 as reported by AUS Utility Reports (formerly C.A. Turner Utility Reports) and  
25 Coronado. In addition, below is a general description of each of the companies:

26 (1) American States Water (AWR) primarily serves the California

1 market through Golden State Water Company, which provides water  
2 services to over 254,000 customers within 75 communities in 10  
3 counties in the State of California, primarily in Los Angeles, San  
4 Bernardino, and Orange counties. It has one subsidiary serving the  
5 Arizona market with approximately 13,000 customers in Fountain  
6 Hills and Scottsdale. AWR also owns an electric utility service  
7 provider with over 23,000 customers, but approximately 91 percent  
8 of its revenues were derived from commercial and residential water  
9 customers. Revenues for American States were \$318.7 million in  
10 2008 and net plant nearly \$724 million at the end of 2008.

11 (2) Aqua America (WTR) owns regulated utilities in Pennsylvania,  
12 Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana,  
13 Virginia, Maine, Missouri, New York, and South Carolina, serving  
14 over 945,000 customers at the end of 2008. WTR's utility base is  
15 diversified among residential water, commercial water, fire  
16 protection, industrial water, other water, and wastewater customers.  
17 Total revenues for WTR were nearly \$627 million in 2008 and net  
18 plant was nearly \$2.58 billion at the end of 2008.

19 (3) California Water Service Group (CWT) owns subsidiaries in  
20 California, New Mexico, Washington, and Hawaii serving over  
21 180,000 customers. The California operations account for over 95  
22 percent of customers and over 96 percent of operating revenues.  
23 Revenues for CWT were over \$410 million in 2008 and net plant  
24 nearly \$1 billion at the end of 2008.

25 (4) Connecticut Water Services (CTWS) owns subsidiaries in  
26 Connecticut and Massachusetts serving over 87,000 customers.

1 Revenues for CTWS were over \$61 million in 2008 and net plant  
2 over \$250 million at the end of 2008.

3 (5) Middlesex Water (MSEX) owns subsidiaries in New Jersey and  
4 Delaware serving over 105,000 customers and provides water service  
5 under contract to municipalities in central New Jersey to a population  
6 of over 267,000. Revenues for MSEX were over \$91 million in 2008  
7 and net plant was over \$312 million at the end of 2008.

8 (6) SJW Corp. (SJW) owns San Jose Water, which provides water  
9 service in a 138 square mile area in San Jose, California, and  
10 surrounding communities. Revenues for SJW were over  
11 \$220 million in 2008 and net plant was over \$492 million at the end  
12 of 2008.

13 **Q. HOW DOES CORONADO COMPARE TO THE SAMPLE WATER**  
14 **UTILITIES?**

15 A. It is smaller. At the end of the test year, Coronado had approximately 1,300  
16 customers. Its revenues totaled under \$900,000, and wastewater net plant-in-  
17 service was approximately \$3.98 million. Coronado is located in Pinal County,  
18 Arizona, and has a relatively small service territory compared to the sample water  
19 companies.

20 **Q. ARE THERE ANY OTHER CHARACTERISTICS WHICH DISTINGUISH**  
21 **CORONADO FROM THE SAMPLE WATER UTILITIES?**

22 A. Yes. Coronado has more debt in its capital structure than the sample water utilities.

23 **Q. ARE THERE OTHER FACTORS OF SMALLER UTILITIES, LIKE**  
24 **CORONADO, WHICH INCREASE RISK?**

25 A. Yes. Because smaller utilities, like Coronado, are not publicly traded they have  
26 less financial flexibility which in turn increases risk. The Company does not have

1 access to the public equity markets and this lack of financial flexibility increases  
2 risk because it has no choice but to rely on retained earnings, short-term debt, and  
3 privately placed bonds to provide capital for plant improvements and additions  
4 necessary to ensure safe and reliable wastewater service to its customers. Further,  
5 the Company does not have a market to issue common stock to the public to raise  
6 capital.

7 Water utilities are capital intensive and typically have large construction  
8 budgets. Coronado's construction budget for the next three years is over \$300,000.  
9 As discussed on page 14 of my testimony, firms with large capital budgets face  
10 construction risk (a form of financial risk). The size of a utility's capital budget  
11 relative to the size of the utility itself often increases construction risk. Larger  
12 utilities may be able to fund large capital budgets from earnings and short-term  
13 borrowings. For smaller utilities, like Coronado, the ability to fund relatively large  
14 capital budgets from earnings and short-term debt is difficult requiring that  
15 additional capital be raised. However, the ability to raise additional capital is in  
16 and of itself challenging and compounded by a limited ability to access capital, an  
17 obligation to serve, and a limited ability to wait for more favorable market  
18 conditions to raise the capital to fund necessary capital projects.

19 **Q. WHAT OTHER RISK FACTORS DISTINGUISH CORONADO FROM**  
20 **THE LARGER SAMPLE WATER UTILITIES?**

21 **A.** There are a number of state specific factors that increase the risk to Arizona water  
22 and wastewater utilities.

23 First, the regulatory environment in which the Company operates is much  
24 different than that of the sample water utilities. Arizona water and wastewater  
25 utilities face legal constraints that limit their ability to obtain rate relief outside of a  
26 general rate case in which the "fair value" of the utility's property is determined

1 and used to set rates. The Commission limits the ability of Arizona utilities to  
2 utilize adjustment mechanisms, advice letter filings and other streamlined  
3 procedures to obtain recovery of costs outside a general rate case, in contrast to  
4 many other jurisdictions.

5 Second, the Commission requires the use of an historic test year with  
6 limitations on the amount of out-of-period adjustments. This process creates  
7 another state-specific factor that increases risk and thus required ROEs for utilities  
8 in Arizona. In fact, three out of the six sample water companies operate primarily  
9 in California – American States, California Water and SJW Corp. California uses  
10 future test years to help better match plant investment and revenues and expenses  
11 going forward - the period in which rates will be in effect. California also allows  
12 the use of balancing accounts on major operating expenses like purchased power  
13 and purchased water to help utilities recover expenses that are beyond their control.

14 A fourth utility in the sample group, Aqua America, has regulatory  
15 mechanisms available to it to help lessen risk. In six states in which Aqua America  
16 operates water utilities, and two states in which Aqua America operates wastewater  
17 utilities, regulatory bodies permit it to add a surcharge to water or wastewater bills  
18 to offset the additional depreciation and capital costs associated with certain capital  
19 expenditures related to replacing and rehabilitating infrastructure systems. Aqua  
20 America also operates in jurisdictions in which it may bill utility customers in  
21 accordance with a rate filing that is pending before the respective regulatory  
22 commission as well as jurisdictions that authorize the use of expense deferrals and  
23 amortization in order to provide for an impact on its operating income by an  
24 amount that approximates the requested amount in a rate request. In addition,  
25 certain states in which Aqua America operates use a surcharge or credit on bills to  
26 reflect changes in certain costs, such as changes in state tax rates, other taxes and

1 purchased water, until such time as the costs are incorporated into base rates.

2 **Q. IT DOESN'T APPEAR THAT CORONADO IS ACTUALLY**  
3 **COMPARABLE TO THE SAMPLE WATER UTILITIES.**

4 A. It really isn't, for the reasons I have stated. Constraints on the rate making process  
5 in Arizona make it difficult to obtain approval of rates that allow Arizona water  
6 and wastewater utilities to recover the costs of service it will actually incur during  
7 the period when new rates are put in place, which can be several years beyond the  
8 test year. Risks are higher for Coronado and the required return on equity should  
9 be above the level required by water and wastewater utilities that operate in states  
10 that do not have such limitations imposed, either by law or by agency policy, on  
11 the rate-setting system. Unfortunately, as I testified, the approaches commonly  
12 used to estimate a utility's cost of equity require market data, which is not available  
13 for smaller companies and utilities operating exclusively in Arizona, like  
14 Coronado. As a result, much larger, public companies must be used as proxies.

15 But the emphasis on proxy is very important. The criteria established by the  
16 Supreme Court in decisions such as *Bluefield Water Works* require the use of  
17 comparable companies, i.e., companies that would be viewed by investors as  
18 having similar risks. A rational investor would not regard Coronado as having the  
19 same level of risk as Aqua America or even Connecticut Water. Consequently, the  
20 results produced by the DCF and CAPM methodologies, utilizing data for the  
21 sample utilities, often understates the appropriate return on equity for a regulated  
22 water and wastewater utility provider.

23 **Q. YOU PREVIOUSLY DISCUSSED FINANCIAL RISK, WHICH IS**  
24 **RELATED TO A FIRM'S CAPITAL STRUCTURE. HOW DO THE**  
25 **CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES**  
26 **COMPARE TO CORONADO?**

1 A. Schedule D-4.3 shows that the capital structure of Coronado at December 31, 2008  
2 contains approximately 70.6 percent debt and 29.4 percent equity (15.6 preferred  
3 equity and 13.8 percent common equity), compared to the average of the water  
4 utility sample of 46.9 percent debt and 53.1 percent equity.

5 **Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL**  
6 **STRUCTURE AND ITS COST OF CAPITAL?**

7 A. Yes. Generally, when a firm engages in debt financing, it exposes itself to greater  
8 risk. Once debt becomes significant relative to the total capital structure, the risk  
9 increases in a geometric fashion compared to the linear percentage increase in the  
10 debt ratio itself. This risk is illustrated by considering the effect of leverage on net  
11 earnings. For example, as leverage increases, the equity ratio falls. This creates  
12 two adverse effects on the investor. First, equity earnings decline rapidly and may  
13 even disappear. Second, the "cushion" of equity protection for debt falls. A  
14 decline in the protection afforded debt holders, or the possibility of a serious  
15 decline in debt protection, will act to increase the cost of debt financing.  
16 Therefore, one may conclude that each new financing, whether through debt or  
17 equity, impacts the marginal cost of future financing by any alternative method.  
18 For a firm already perceived as being over-leveraged, this additional borrowing  
19 would cause the marginal cost of both equity and debt to increase. On the other  
20 hand, if the same firm instead employed equity funding, this could actually reduce  
21 the real marginal cost of additional borrowing, even if the particular equity  
22 issuance occurred at a higher unit cost than an equivalent amount of debt.

23 Having significantly more debt in its capital structure implies that Coronado  
24 has much more financial risk than the water utility sample. In addition, smaller  
25 utilities cannot support the same level of debt as larger utilities and smaller utilities  
26 face higher business and operational risk as compared to larger utilities which

1 magnify the financial risk of higher debt levels in their capital structures.

2 **B. Overview of the DCF and CAPM Methodologies**

3 **Q. PLEASE EXPLAIN THE GENERAL APPROACHES TO ESTIMATING**  
4 **THE COST OF CAPITAL.**

5 **A.** There two broad approaches:

- 6 1) identify comparable-risk sample companies and estimate the cost of  
7 capital directly, and,
- 8 2) find the location of the CML and estimate the relative risk of the  
9 company that jointly determines the cost of capital.

10 The DCF model is an example of a method falling into the first general  
11 approach. It is a direct method, but uses only a subset of the total capital market  
12 evidence. The DCF model rests on the premise that the fundamental value of an  
13 asset (stock) is its ability to generate future cash flows to the owner of that asset  
14 (stock). I will explain the DCF model in a moment, for now, the DCF is simply the  
15 sum of a stock's expected dividend yield and the expected long-term growth rate.  
16 Dividend yields are readily available, but long-term growth estimates are not.

17 The CAPM is an example of a method falling into the second general  
18 approach. It uses information on all securities rather than a small subset. I will  
19 explain the CAPM in more detail later. For now, the CAPM is a risk-return  
20 relationship, often depicted graphically as the CML. The CAPM is the sum of a  
21 risk-free return and a risk premium.

22 Each of these two methods has their own way of measuring investor  
23 expectations. In the final analysis, ROE estimates are subjective and should be  
24 based on sound, informed judgment rationally articulated and supported by  
25 competent evidence. I have applied several versions of the DCF, and two versions  
26 of the CAPM to "bracket" the fair cost of equity capital for Coronado, but without



1 taking into account the additional risks that Coronado possesses.

2 **C. Explanation of the DCF Model and Its Inputs**

3 **Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF**  
4 **EQUITY.**

5 A. The DCF model is based on the concept that the current price of a share of stock is  
6 equal to the present value of future cash flows from the purchase of the stock. In  
7 other words, the DCF model is an attempt to replicate the market valuation process  
8 that sets the price investors are willing to pay for a share of a company's stock. It  
9 rests on the assumption that investors rely on the expected returns (i.e., cash flow  
10 they expect to receive) to set the price of a security. The DCF model in its most  
11 general form is:

12 
$$[2] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$$

13 where  $k$  is the cost of equity;  $n$  is a very large number;  $P_0$  is the current stock price;  
14 and,  $CF_1, CF_2, \dots, CF_n$  are all the expected future cash flows expected to be received  
15 in periods 1, 2, ...  $n$ .

16 Equation (2) can be written to show that the current price ( $P_0$ ) is also equal  
17 to

18 
$$[3] \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + P_t/(1+k)^t$$

19 where  $P_t$  is the price expected to be received at the end of the period  $t$ . If the future  
20 price ( $P_t$ ) included a premium (an expected increase in the stock price or capital  
21 gain), the price the investor would pay today in anticipation of receiving that  
22 premium would increase. In other words, by estimating the cash flows from the  
23 purchase of a stock in the form of dividends and capital gains, we can calculate the  
24 investor's required rate of return, i.e., the rate of return an investor presumptively  
25 used in bidding the current price to the stock ( $P_0$ ) to its current level.

26 Equation [3] is a Market Price version of the DCF model. As with the

1 general form of the DCF model in equation [2], in the Market Price approach the  
2 current stock price ( $P_0$ ) is the present value of the expected cash inflows. The cash  
3 flows are comprised of dividends and the final selling price of the stock. The  
4 estimated cost of equity ( $k$ ) is the rate of return investors expect if they bought the  
5 stock at today's price, held the stock and received dividends through the transition  
6 period, and then sold it for price ( $P_1$ ).

7 **Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET**  
8 **PRICE VERSION OF THE DCF MODEL?**

9 A. Yes. Assume an investor buys a share of common stock for \$40. If the expected  
10 dividend during the coming year is \$2.00, then the expected dividend yield is 5  
11 percent ( $\$2.00/\$40 = 5.0$  percent). If the stock price is also expected to increase to  
12 \$43.00 after one year, this \$3.00 expected gain adds an additional 7.5 percent to the  
13 expected total rate of return ( $\$3.00/\$40 = 7.5$  percent). Thus, the investor buying  
14 the stock at \$40 per share, expects a total return of 12.5 percent (5 percent dividend  
15 yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the  
16 appropriate measure of the cost of capital because this is the rate of return that  
17 caused the investor to commit \$40 of his capital by purchasing the stock.

18 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF**  
19 **MODEL.**

20 A. Under the assumption that future cash flows are expected to grow at a constant rate  
21 ("g"), equation [2] can be solved for  $k$  and rearranged into the simple form:

$$22 \quad [4] \quad k = CF_1/P_0 + g$$

23 where  $CF_1/P_0$  is the expected dividend yield and  $g$  is the expected long term  
24 dividend (price) growth rate ("g"). The expected dividend yield is computed as the  
25 ratio of next period's expected dividend (" $CF_1$ ") divided by the current stock price  
26 (" $P_0$ "). This form of the DCF model is known as the constant growth DCF model

1 and recognizes that investors expect to receive a portion of their total return in the  
2 form of current dividends and the remainder through future dividends and capital  
3 (price) appreciation. A key assumption of this form of the model is that investors  
4 expect that same rate of return ( $k$ ) every year and that market price grows at the  
5 same rate as dividends. This has not been historically true for the water utility  
6 sample, as shown by the data in Schedule D-4.4 and Schedule D-4.5. As a result,  
7 estimates of long-term growth rates ( $g$ ) should take this into account.

8 **Q. ARE THERE ANY GENERAL CONCERNS ABOUT APPLYING THE DCF**  
9 **MODEL TO UTILITY STOCKS?**

10 A. There are a number of reasons why caution must be used when applying the DCF  
11 model to utility stocks. First, the stock price and dividend yield component may be  
12 unduly influenced by structural changes in the industry, such as mergers and  
13 acquisitions, which influence investor expectations. Second, the DCF model is  
14 based on a number of assumptions which may not be realistic given the current  
15 capital market environment. The traditional DCF model assumes that the stock  
16 price, book value, dividends, and earnings all grow at the same rate. This has not  
17 been historically true for the sample water utility companies. Third, the application  
18 of the DCF model produces estimates of the cost of equity that are consistent with  
19 investor expectations only when the market price of a stock and the stock's book  
20 value are approximately the same. The DCF model will understate the cost of  
21 equity when the market-to-book ratio exceeds 1.0 and conversely will overstate the  
22 cost of equity when the market-to-book ratio is less than 1.0. The reason for this is  
23 that the market-derived return produced by the DCF is often applied to book value  
24 rate base by regulators. Fourth, the assumption of a constant growth rate may be  
25 unrealistic, and there may be difficulty in finding an adequate proxy for the growth  
26 rate. Historical growth rates can be downward biased as a result of the impact of

1 anemic historical growth rates in earnings, mergers and acquisitions, restructuring,  
2 unfavorable regulatory decisions, and even abnormal weather patterns. Further, by  
3 placing too much emphasis on the past, the estimation of future growth becomes  
4 circular.

5 **Q. LET'S TURN TO THE SPECIFIC INPUTS USED IN YOUR DCF MODELS.**  
6 **WHAT DATA HAVE YOU USED TO COMPUTE THE EXPECTED**  
7 **DIVIDEND YIELD ( $CF_1/P_0$ ) IN YOUR MODELS?**

8 A. First, I computed a current dividend yield ( $CF_0/P_0$ ). The expected dividend yield  
9 ( $CF_1/P_0$ ) is the current dividend yield ( $CF_0/P_0$ ) times one plus the growth rate ( $g$ ). I  
10 used the spot price for each of the stocks of the water utilities in the sample group  
11 on as reported by the Value Line Investment Analyzer for April 16, 2009 for  $P_0$ .  
12 The current dividend ( $CF_0$ ) is the dividend for the next year as reported by Value  
13 Line. In my schedules, the current dividend yield is denoted as ( $D_0/P_0$ ), where  $D_0$   
14 is the current dividend and  $P_0$  is the spot stock price. ( $D_1/P_0$ ) is used to denote the  
15 expected dividend yield in the schedules.

16 **Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?**

17 A. For my primary DCF growth estimate, I have used analyst growth forecasts, where  
18 available, from four different, widely-followed sources: *Zack's Investment*  
19 *Research*, *Morningstar*, *Yahoo Finance*<sup>2</sup>, and *Value Line Investment Survey*.  
20 Schedule D-4.6 reflects the analyst estimates of growth. The currently available  
21 estimates from these four sources provide at least two estimates for each of the  
22 sample water utility companies with the exception of Connecticut Water.  
23 Connecticut Water's single estimate of 15 percent from Yahoo Finance was  
24 excluded leaving no estimates for Connecticut Water. When there is no estimate of  
25

26 <sup>2</sup> Yahoo Finance analyst estimates provided by Thompson Financial.

1 forward-looking growth for a utility in the water utilities sample, as in the case of  
2 Connecticut Water, I have assumed investors expect the growth for that utility to  
3 equal the average of growth rates for the other water utilities in the sample.

4 **Q. WHY DID YOU USE FORECASTED GROWTH RATES AS YOUR**  
5 **PRIMARY ESTIMATE OF GROWTH?**

6 A. The DCF model requires estimates of growth that investors expect in the future and  
7 not past estimates of growth that have already occurred. Accordingly, I use as a  
8 primary estimate of growth analysts' forecasts of growth. Logically, in estimating  
9 future growth, financial institutions and analysts have taken into account all  
10 relevant historical information on a company as well as other more recent  
11 information.<sup>3</sup> To the extent that past results provide useful indications of future  
12 growth prospects, analysts' forecasts would already incorporate that information.  
13 In addition, a stock's current price reflects known historic information on that  
14 company, including its past earnings history. Any further recognition of the past  
15 will double count what has already occurred. Therefore, forward-looking growth  
16 rates should be used.

17 **Q. WHAT OTHER ESTIMATES OF GROWTH DID YOU USE?**

18 A. I use the 5-year historical average growth rates in the stock price, book value per  
19 share ("BVPS"), earnings per share ("EPS") and dividends per share ("DPS")  
20 along with the average of analyst expectations. Using the historical average of  
21 price, BVPS, EPS, and EPS is reasonable because investors know that, in  
22

23 <sup>3</sup> David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of  
24 Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55. Gordon,  
25 Gordon and Gould found that a consensus of analysts' forecasts of earnings per share growth for  
26 the next five years provides a more accurate estimate of growth required in the DCF model than  
three different historical measures of growth (historical EPS, historical DPS, and historical  
retention growth). They explain that this result makes sense because analysts would take into  
account such past growth as indicators of future growth as well as any new information.

1 equilibrium, common stock prices, BVPS, EPS and DPS will all grow at the same  
2 rate and would take information about changes in stock prices and growth in BVPS  
3 into account when they price utilities' stocks. As I stated earlier, a basic  
4 assumption of the DCF model is that the stock price, BVPS, EPS and DPS all grow  
5 at the same rate. While I believe this growth rate gives further recognition to the  
6 past that is already incorporated into analyst estimates of growth, I have been  
7 criticized by Staff in the past for not giving direct consideration to past growth  
8 rates in my estimate of growth.

9 **Q. WHAT OTHER CONCERNS DO YOU HAVE ON THE USE OF**  
10 **HISTORICAL DPS GROWTH IN YOUR DCF ESTIMATE OF GROWTH?**

11 A. Although I have used historical DPS growth in my estimate, I believe the use of  
12 historical DPS growth depresses the growth rate. Attachment 1 shows the constant  
13 growth DCF results using historical DPS growth. The result is 7.05 percent, well  
14 below the current cost of investment grade bonds at 8.4 percent and is even below  
15 the cost of Baa/BBB utility bonds at 7.5 percent. It is important to keep in mind  
16 that there is a great deal of empirical evidence demonstrating that, on average,  
17 stocks are riskier than bonds and achieve higher returns. Morningstar, for example,  
18 annually publishes its comprehensive study of historical returns on stocks and  
19 bonds.<sup>4</sup>

20 Putting aside the potential distortions to the result produced by the DCF  
21 model caused by structural changes to the industry and abnormal weather  
22 conditions, it does not make sense to employ growth rates that result in indicated  
23 equity returns less than the cost of debt, especially when those results fly in the  
24 face of a large body of empirical evidence. Investors would not bid up the price of  
25

26 <sup>4</sup> Morningstar, *Ibbotson SBBI 2009 Valuation Yearbook*.

1 a utility stock if the expected return is equivalent to returns on bonds and other debt  
2 investments. As the CML depicted previously illustrates, common stocks are  
3 higher and to the right of investment grade bonds on the CML continuum because  
4 they are riskier investments. Again, the empirical evidence supports this  
5 conclusion. The results using historical DPS growth are unreasonable.

6 **D. Explanation of the CAPM and Its Inputs**

7 **Q. PLEASE EXPLAIN THE CAPM METHODOLOGY FOR ESTIMATING**  
8 **THE COST OF EQUITY.**

9 A. As I already indicated, the CAPM is a type of risk premium methodology that is  
10 often depicted graphically in a form identical to the CML. Put simply, the CAPM  
11 formula is the sum of a risk-free rate plus a risk premium. It quantifies the  
12 additional return required by investors for bearing incremental risk. The risk-free  
13 rate is the reward for postponing consumption by investing in the market. The risk  
14 premium is the additional return compensation for assuming risk.

15 The CAPM formula provides a formal risk-return relationship premised on  
16 the idea that only market risk matters, as measure by beta. The CAPM formula is:

17 
$$(7) \quad k = R_f + \beta(R_m - R_f)$$

18 where  $k$  is the expected return,  $R_f$  is the risk-free rate,  $R_m$  is the market return,  $(R_m - R_f)$   
19 is the market risk premium, and  $\beta$  is beta.

20 The difficulty with the CAPM is that it is a prospective or forward-looking  
21 model while most of the capital market data required to match the input variables  
22 above is historical.

23 **Q. WHAT IS THE RISK-FREE RATE?**

24 A. It is the return on an investment with no risk. The U.S. Treasury rate serves as the  
25 basis for the risk-free rate because the yields are directly observable in the market  
26 and are backed by the U.S. government. Practically speaking, short-term rates are

1 volatile, fluctuate widely and are subject to more random disturbances than long-  
2 term rates. In short, long-term Treasury rates are preferred for these reasons and  
3 because long-term rates are more appropriately matched to securities with an  
4 indefinite life or long-term investment horizon.

5 **Q. WHAT IS BETA AND WHAT DOES IT MEASURE?**

6 A. Beta is a measure of the relative risk of a security and the market. In other words,  
7 it is a measure of the sensitivity of a security to the market as a whole. This  
8 sensitivity is also known as systematic risk. It is estimated by regressing a  
9 security's excess returns against a market portfolio's excess returns. The slope of  
10 the regression line is the beta.

11 Beta for the market is 1.0. A security with a beta greater than 1.0 is  
12 considered riskier than the market. A security with a beta less than 1.0 is  
13 considered less risky than the market.

14 There are computational problems surrounding beta. It depends on the  
15 return data, the time period used, its duration, the choice of the market index, and  
16 whether annual, monthly, or weekly return figures are used. Betas are estimated  
17 with error. Based on empirical evidence, high betas will tend to have a positive  
18 error (risk is overestimated) and low betas will have a negative error (risk is  
19 underestimated).<sup>5</sup>

20 **Q. WHAT DID YOU USE AS THE PROXY OF THE BETA FOR**  
21 **CORONADO?**

22 A. I used the average beta of the sample water utility companies. Betas were obtained  
23 from *Value Line Investment Analyzer* (April 16, 2009). *Value Line* is the source for  
24 estimated betas that I regularly employ along with Arizona Commission Staff and

25 <sup>5</sup> Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and  
26 Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.



1 is a widely accepted by financial analysts. The average beta as shown on Schedule  
2 D-4.13 is 0.84. I should note that because Coronado is not publicly traded,  
3 Coronado has no beta. I believe that Coronado, if it were publicly traded, would  
4 have a higher beta than the sample water utility companies.

5 **Q. WHY?**

6 A. Smaller companies are more risky than larger companies. In Chapter 7 of  
7 Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook*, for example, Ibbotson  
8 reports that when betas are properly estimated, betas are larger for small companies  
9 than for larger companies. As I will explain later, Ibbotson also finds that even  
10 after accounting for differences in beta risk, small firms require an additional risk  
11 premium over and above the added risk premium indicated by differences in beta  
12 risk.

13 **Q. PLEASE EXPLAIN THE MARKET RISK PREMIUM?**

14 A. The market-risk premium ( $R_m - R_f$ ) is the return an investor expects to receive as  
15 compensation for market risk. It is the expected market return minus the risk-free  
16 rate. Approaches for estimating the market risk premium can be historical or  
17 prospective.

18 Since expected returns are not directly observable, historical realized returns  
19 are often used as a proxy for expected returns on the basis that the historical market  
20 risk premium follows what is known in statistics as a "random walk." If the  
21 historical risk premium does follow the random walk, then one should expect the  
22 risk premium to remain at its historical mean. Based on this argument, the best  
23 estimate of the future market risk premium is the historical mean. Morningstar's  
24 *SBBI Valuation Edition 2008 Yearbook* provides historical market returns for  
25 various asset classes from 1926 to 2008. This publication also provides market risk  
26

1 premiums over U.S. Treasury bonds, which make it an excellent source for  
2 historical market risk premiums.

3 Prospective market risk premium estimation approaches necessarily require  
4 examining the returns expected from common equities and bonds. One method  
5 employs applying the DCF model to a representative market index such as the  
6 Value Line 1700 stocks (the *Value Line* Composite Index). The expected return  
7 from the DCF is measured for a number of periods of time, and then subtracted  
8 from the prevailing risk-free rate for each period to arrive at market risk premium  
9 for each period. The market risk premium subsequently employed in the CAPM is  
10 the average market risk premium of the overall period.

11 **Q. HOW MANY MARKET RISK PREMIUM ESTIMATES DID YOU**  
12 **PREPARE IN CONNECTION WITH YOUR ASSIGNMENT FOR**  
13 **CORONADO?**

14 A. I prepared two market risk premium estimates: An historical market risk premium  
15 and a current market risk premium.

16 **Q. HOW DID YOU ESTIMATE THE HISTORICAL MARKET RISK**  
17 **PREMIUM?**

18 A. I used the Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* measure of the  
19 average premium of the market over long-term treasury securities from 1926  
20 through 2008. The average historical market risk premium over long-term treasury  
21 securities is 6.5 percent.

22 **Q. HOW DID YOU ESTIMATE THE CURRENT MARKET RISK PREMIUM?**

23 A. I derived a market risk premium by, first, using the DCF model to compute an  
24 expected market return for each of the past 24 months using *Value Line's*  
25 projections of the average dividend yield and average price appreciation (growth)  
26 on the *Value Line* 1700 Composite Index. I then subtracted the average 30-year

1 Treasury yield for each month from the expected market returns to arrive at the  
2 expected market risk premiums. Finally, I averaged the computed market risk  
3 premiums to determine the current market risk premium. The data and  
4 computations are shown on Schedule D-4.11. The average current market risk  
5 premium is 17.74 percent. Estimates of the current market risk premium have  
6 increased significantly over the past 6-12 months. In fact, the 6 and 12 month  
7 average of the market risk premium is 33.91 and 25.17, respectively. My 24 month  
8 estimate is more conservative at 17.74 percent. The increase in the market risk is  
9 not surprising given the financial markets and economic conditions of the past 12  
10 months and the continued uncertainty expected in the capital markets in the future.

11 **Q. HAS THE COMMISSION STAFF EMPLOYED A CURRENT MARKET**  
12 **RISK PREMIUM IN THE PAST?**

13 A. Yes. However, Staff's estimation of the current market risk premium was  
14 somewhat different. Staff uses a DCF model to compute the current market risk  
15 premium as I do. However, Staff uses the median annualized projected 3-5 year  
16 price appreciation on the *Value Line* 1700 stocks in conjunction the median  
17 dividend yield on the *Value Line* 1700 stocks. Based on data from April 16, 2009,  
18 including the current yield on 30 year U.S. Treasury bonds, the current market risk  
19 premium under Staff's method would be approximately 18.8 percent. Arguably,  
20 my method is more conservative at 17.7 percent.

21 **Q. WHAT DO YOU ADOPT AS THE RETURN FOR THE RISK-FREE RATE?**

22 A. I use long-term Treasury bond rates as the measure of the risk-free return for use  
23 with both CAPM and cost of equity estimates. Morningstar's *Ibbotson SBBI 2009*  
24 *Valuation Yearbook* explains on page 47 that the appropriate choice for the risk-  
25 free rate is a return that is no less than the expected return for long-term Treasury  
26 securities. Thus, when determining an estimate of the risk-free rate, it is

1 appropriate to adopt a return that is no less than the expected return on the long-  
2 term Treasury bond rate. Both of my CAPM estimates are based on a projected  
3 estimate of the long-term treasury rates for 2010-2011 of 4.60% as shown on  
4 Schedule D-4.10. The 2010-2011 timeframe is the period when new rates will be  
5 put in place for the Company.

6 **E. Financial Risk Adjustment**

7 **Q. PLEASE EXPLAIN YOUR FINANCIAL RISK ADJUSTMENT TO**  
8 **REFLECT THE COMPANY'S LOWER LEVEL OF DEBT IN ITS**  
9 **CAPITAL STRUCTURE AS COMPARED TO THE SAMPLE WATER**  
10 **UTILITIES?**

11 **A.** My financial risk estimation is based upon the methodology developed by  
12 Professor Hamada of the University of Chicago, which incorporates the beta of a  
13 levered firm to that of its unlevered counterpart. The equation is

14 
$$\beta_L = \beta_U[1 + (1 - T)\phi]$$

15 where  $\beta_L$  and  $\beta_U$  are the levered and unlevered betas, respectively, T is the tax rate,  
16 and  $\phi$  the leverage, defined as the ratio of debt and equity of the firm. In simple  
17 terms, I unlever the average beta of the six publicly traded water utilities in my  
18 sample using a ratio of the market value of debt and the market value of equity.  
19 While I can compute the market value of equity of the sample water utilities based  
20 on the current number of shares outstanding and the current stock price, estimating  
21 the market value of debt is much more difficult. For purposes of my analysis, I  
22 assume the market value of debt is the book value. This is a reasonable assumption  
23 and is conservative. Once the unlevered beta is determined, I relever the beta using  
24 the capital structure of Coronado. For the market value of equity, I multiplied  
25 Coronado's book value of equity times the average market-to-book ratio of the  
26

1 sample water utilities. For Coronado's debt, I assume the market value of debt is  
2 equal to the book value.

3 The relevered beta is then used in my CAPM models, and the new CAPM  
4 results are compared to my original CAPM results. The computed difference is the  
5 basis of my financial risk adjustment. My computation of the financial risk  
6 adjustment can be found in tables D-4.17, D-4.18, and D-4.19.

7 **Q. WHAT IS THE COMPUTED FINANCIAL RISK ADJUSTMENT?**

8 A. An upward adjustment of 350 basis points. Again, however, in my opinion, the  
9 beta for Coronado would be higher than that of the sample water utilities which  
10 would have resulted in a higher upward financial risk adjustment. But I have to  
11 make some assumptions to work with approach, an approach used by Staff and the  
12 Commission in past cases.

13 **F. Company Specific Risk Premium**

14 **Q. PLEASE DISCUSS YOUR COMPANY SPECIFIC RISK PREMIUM.**

15 A. As I testified earlier, Coronado is not directly comparable to the sample water  
16 utilities because of its small size and the regulatory environment in Arizona. The  
17 characteristics such as small size, lack of diversification, limited revenue and cash  
18 flow, small customer base, lack of liquidity, as well as the magnitudes of regulatory  
19 and construction risk are common to smaller water and wastewater utilities  
20 regardless of the regulatory jurisdiction. These characteristics and magnitudes of  
21 risk are unique only in the sense that the large publicly traded water utilities  
22 (including the companies in the proxy group) do not possess these same  
23 characteristics and magnitudes of risk. With respect to Arizona regulation, the use  
24 of historical test year with limited out of period adjustments and the lack of  
25 adjuster mechanism increases to the risk of Coronado.

1 **Q. PLEASE DISCUSS SIZE RISK FOR SMALL UTILITY COMPANIES.**

2 A. Investment risk increases as the firm size decreases, all else remaining constant.  
3 There is a great deal of empirical evidence that firm size phenomenon exists.  
4 Morningstar's *Ibbotson SBBI 2009 Valuation Yearbook* (Chapter 7) reports that  
5 smaller companies have experienced higher returns that are not fully explainable  
6 by their higher betas and that beta is inversely related to company size. In other  
7 words, smaller companies not only have higher betas but higher returns than larger  
8 ones. Even after accounting for differences in beta risk, small companies require  
9 an additional risk premium over and above the added risk premium indicated by  
10 differences in beta risk. Dr. Zepp also reported evidence that the stocks of small  
11 water or wastewater utilities, like Coronado, are more risky than the stocks of  
12 larger water utilities, such as those in the water utilities sample.<sup>6</sup> Even the  
13 California PUC conducted a study that showed smaller water utilities are more  
14 risky than larger ones.<sup>7</sup> Based on the evidence, it is clear that investors require  
15 higher returns on small company stocks than on large company stocks.

16 I have included in Schedule D-4.16 the results of an *Ibbotson* study using  
17 annual data reporting the size premium based upon firm size and return data  
18 provided in Morningstar *Ibbotson SBBI 2009 Valuation Yearbook* and information  
19 contained in a published work by Dr. Thomas M. Zepp. I have estimated that a  
20 small company risk premium in the range of 99 to 181 basis points is appropriate.

21 **Q. WHAT COMPANY SPECIFIC RISK PREMIUM DO YOU RECOMMEND**  
22 **FOR CORONADO?**

23 A. To be conservative, I conclude that a company specific risk premium of no less

24 <sup>6</sup> Thomas M. Zepp, "Utility Stocks and the Size Effect -- Revisited", *The Quarterly Review*  
25 *Economics and Finance*, Vol. 43, Issue 3, Autumn 2003, 578-582.

26 <sup>7</sup> Staff Report on Issues Related to Small Water Utilities, June 10, 1991 and CPUC Decision 92-03-093.

1 than 50 basis points is warranted for Coronado to account for its smaller size and  
2 regulatory risk.

3 **G. Summary and Conclusions**

4 **Q. HAVE YOU PREPARED A SCHEDULE WHICH SUMMARIZES YOUR**  
5 **EQUITY COST ESTIMATES AND PRESENTS YOUR**  
6 **RECOMMENDATIONS?**

7 **A.** Yes. The equity cost estimates and my recommendations are summarized in  
8 Schedule D-4.1.

9 In the first part of my analysis, I applied two versions of the constant growth  
10 DCF model. One uses analyst estimates of growth and the other uses historical  
11 growth and analyst expectations. See Schedules D-4.8. The DCF models produce  
12 an indicated equity cost in the range of 11.1 percent to 12.6 percent, with a  
13 midpoint of 11.9 percent.

14 In the second part of my analysis, I applied two versions of the CAPM – a  
15 historical risk premium CAPM and a current market risk premium CAPM. The  
16 CAPM analyses appear in Schedule D-4.12 and produce an indicated cost of equity  
17 in the range of 10.1 percent to 19.5 percent, with a midpoint of 14.8 percent.

18 In the third part of my analysis, I compute a financial risk adjustment to  
19 account for the lower level of debt in Coronado's capital structure compared to the  
20 sample water utilities. My recommendation is that an upward financial risk  
21 adjustment of no less than 350 basis points be applied to Coronado's cost of equity.  
22 My financial risk adjustment analysis is shown in schedules D-4.13, D-4.14, and  
23 D-4.15.

24 In the fourth part of my analysis, I reviewed the financial literature on the  
25 small firm size effect and determined that an appropriate small company size  
26 premium for small utilities like Coronado is in the range of 99 to 181 basis points.

1       *See* Schedule D-4.16. I also considered the risks for Coronado from Arizona  
2 regulation. My recommendation is that an upward adjustment for company  
3 specific risk of no less than 50 basis points be applied to Coronado's cost of equity.

4               The range of results of both my DCF and CAPM analyses and other risk  
5 adjustments is 14.6 percent to 20.0 percent, with a mid-point of 17.3 percent. *See*  
6 Schedule D-4.1.

7       **Q.   WHAT EQUITY RETURN DO YOU RECOMMEND?**

8       A.   My recommended return on equity based on Coronado's capital structure is 14.0.  
9       It is lower than the mid-point of the range of my over-all results and reflects the  
10      desire by the Company to help mitigate the impact on rate payers.

11      **Q.   DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON COST OF**  
12      **CAPITAL?**

13      A.   Yes.  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26



# D SCHEDULES

**Coronado Utilities Inc.**  
Test Year Ended December 31, 2008  
Summary of Cost of Capital

Exhibit  
Schedule D-1  
Page 1  
Witness: Bourassa

Line No.	Item of Capital	<u>End of Test Year</u>				<u>End of Projected Year</u>			
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost 4.41%	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost 4.25%
5	Long-Term Debt	\$ 2,575,000	70.57%	6.25%	4.41%	2,495,000	67.96%	6.25%	4.25%
8	Preferred Stock	570,000	15.62%	6.50%	1.02%	570,000	15.53%	6.50%	1.01%
10	Stockholder's Equity	504,024	13.81%	14.00%	1.93%	606,484	16.52%	14.00%	2.31%
12	Totals	\$ 3,649,024	100.00%		7.36%	\$ 3,671,484	100.00%		7.57%

SUPPORTING SCHEDULES:

D-1  
D-3  
D-4  
E-1

RECAP SCHEDULES:  
A-3

Exhibit  
Schedule D-2  
Page 1  
Witness: Bourassa

[illegible]

**Coronado Utilities Inc.**  
Test Year Ended December 31, 2008  
Cost of Preferred Stock

Exhibit  
Schedule D-3  
Page 1  
Witness: Bourassa

Line No.	Description of Issue	<u>End of Test Year</u>			<u>End of Projected Year</u>		
		Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	<u>SUPPORTING SCHEDULES:</u>				<u>RECAP SCHEDULES:</u>		
18	E-1				D-1		
19							
20							

**Coronado Utilities Inc.**  
Test Year Ended December 31, 2008  
Cost of Common Equity

Exhibit  
Schedule D-4  
Page 1  
Witness: Bourassa

Line

No.

1  
2 The Company is proposing a cost of common equity of 14.00%

3

4

5

6

7

8

9

10

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16

17 SUPPORTING SCHEDULES:

18 E-1

19 D-4.1 to D-4.16

20

RECAP SCHEDULES:

D-1

Coronado Utilities, Inc.  
Summary of Results

Exhibit  
Schedule D-4.1

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4				
5				
6	Range DCF Constant Growth Estimates <sup>1</sup>	11.1%	12.6%	11.9%
7				
8	Range of CAPM Estimates <sup>2</sup>	10.1%	19.5%	14.8%
9				
10				
11	Average of DCF and CAPM midpoint estimates	10.6%	16.0%	13.3%
12				
13				
14	Financial Risk Adjustment <sup>3</sup>	3.5%	3.5%	3.5%
15				
16	Specific Company Risk Premium <sup>4</sup>	0.5%	0.5%	0.5%
17				
18	Indicated Cost of Equity	14.6%	20.0%	17.3%
19				
20				
21				
22	Recommended Cost of Equity			14.0%
23				
24				
25				

<sup>1</sup> See Schedule D-4.8

<sup>2</sup> See Schedule D-4.12

<sup>3</sup> See Schedule D-4.17

<sup>4</sup> See testimony.

**Coronado Utilities, Inc.**  
**Selected Characteristics of Sample Group of Water Utilities**

**Exhibit**

**Schedule D-4.2**

Line No.	Company <sup>1</sup>	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1	1. American States	78%	\$ 318.7	\$ 723.7	A	A2
2	2. Aqua America	98%	\$ 627.0	\$ 2,577.7	AA-	NR
3	3. California Water	98%	\$ 410.3	\$ 994.8	NR	NR
4	4. Connecticut Water	93%	\$ 61.3	\$ 249.8	AAA	NR
5	5. Middlesex	89%	\$ 91.0	\$ 312.4	NR	NR
6	6. SJW Corp.	95%	\$ 220.3	\$ 492.1	NR	NR
7						
8						
9						
10						
11	Average	92%	\$ 288.1	\$ 891.8		
12						
13	Coronado Utilities, Inc.	0%	\$ 0.9	\$ 4.0	NR	NR
14	(as of December 31, 2008)					
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						

<sup>1</sup>AUS Utility Reports (April 2009).

**Coronado Utilities, Inc.  
Capital Structures**

**Exhibit  
Schedule D-4.3**

No.	Company	Book Value <sup>1</sup>		Market Value <sup>1</sup>	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	46.2%	53.8%	31.6%	68.4%
2	2. Aqua America	54.1%	45.9%	32.8%	67.2%
3	3. California Water	41.7%	58.3%	27.6%	72.4%
4	4. Connecticut Water	47.0%	53.0%	35.0%	65.0%
5	5. Middlesex	46.2%	53.8%	38.3%	61.7%
6	6. SJW Corp.	46.0%	54.0%	32.7%	67.3%
10					
11	Average	46.9%	53.1%	33.0%	67.0%
12					
13	Coronado Utilities, Inc.				
14	(as of December 31, 2008)	70.6%	29.4%	N/A	N/A
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					

<sup>1</sup> Value Line Analyzer Data (April 16, 2009)



Coronado Utilities, Inc.  
Comparisons of Past and Future Estimates of Growth

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Five-year historical average annual changes</u>						Average of Future and Historical Growth
	Price <sup>1</sup>	Book Value <sup>2</sup>	EPS <sup>2</sup>	DPS <sup>2</sup>	Average <sup>3</sup> Col 1-3	Average Future Growth <sup>4</sup>	
1. American States	7.34%	4.87%	15.71%	2.90%	7.71%	7.88%	7.79%
2. Aqua America	4.58%	7.27%	5.21%	8.29%	6.34%	8.25%	7.29%
3. California Water	11.74%	5.67%	12.22%	0.88%	7.63%	7.51%	7.57%
4. Connecticut Water	0.19%	3.07%	0.45%	1.18%	1.22%	8.85%	5.04%
5. Middlesex	Negative	5.76%	8.16%	1.51%	5.14%	8.00%	6.57%
6. SJW Corp.	12.50%	8.16%	4.37%	6.02%	7.76%	12.63%	10.19%
GROUP AVERAGE	7.27%	5.80%	7.69%	3.46%	5.97%	8.85%	7.41%
GROUP MEDIAN	7.34%	5.72%	6.69%	2.20%	6.98%	8.13%	7.43%

<sup>1</sup> Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.

<sup>2</sup> Data derived from Value Line Investment Survey and/or 10K Reports for period 2004 to 2008.

<sup>3</sup> Average excludes historical DPS growth rate for reasons stated in testimony at page 31.

<sup>4</sup> See Schedule D-4.6.

Coronado Utilities, Inc.  
Comparisons of Past and Future Estimates of Growth

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	<u>Ten-year historical average annual changes</u>						
	<u>Company</u>	<u>Price<sup>1</sup></u>	<u>Book Value<sup>2</sup></u>	<u>EPS<sup>2</sup></u>	<u>Average<sup>3</sup></u>	<u>Average Future Growth<sup>4</sup></u>	<u>Average of Future and Historical Growth Col 5-6</u>
1	1. American States	8.16%	4.34%	5.93%	5.06%	7.88%	6.47%
2	2. Aqua America	6.43%	8.40%	6.29%	7.08%	8.25%	7.67%
3	3. California Water	7.01%	3.54%	5.38%	4.21%	7.51%	5.86%
4	4. Connecticut Water	4.94%	3.53%	1.45%	2.78%	8.85%	5.82%
5	5. Middlesex	6.17%	3.98%	3.85%	3.98%	8.00%	5.99%
6	6. SJW Corp.	9.46%	5.29%	5.40%	6.44%	12.63%	9.53%
7							
8							
9							
10							
11							
12							
13							
14							
15	GROUP AVERAGE	7.03%	4.85%	4.72%	4.93%	8.85%	6.89%
16	GROUP MEDIAN	6.72%	4.16%	5.39%	4.63%	8.13%	6.23%
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							

<sup>1</sup> Average of changes in year-end stock prices ending in 2008. Data from Yahoo Finance website.

<sup>2</sup> Data derived from Value Line Investment Survey and/or 10K Reports for period 1999 to 2008.

<sup>3</sup> Average excludes historical DPS growth rate for reasons stated in testimony at page 31.

<sup>4</sup> See Schedule D-4.6.

**Coronado Utilities, Inc.**  
**Analysts Forecasts of Earnings Per Share Growth**

**Exhibit  
Schedule D-4.6**

Line No.	[1]	[2]	[3]	[4]	[5]
	<b>ESTIMATES OF EARNINGS GROWTH</b>				
	<u>Company</u>	<u>Zacks<sup>1</sup></u>	<u>Morningstar<sup>1</sup></u>	<u>Yahoo<sup>1</sup></u>	<u>Value Line<sup>1</sup></u>
1	1. American States	11.00%	7.00%	4.00%	9.50%
2	2. Aqua America	8.00%	7.50%	7.50%	10.00%
3	3. California Water	8.00%	6.70%	6.33%	9.00%
4	4. Connecticut Water				
5	5. Middlesex	8.00%		8.00%	8.00%
6	6. SJW Corp.	13.00%	15.00%	10.00%	12.50%
7					
8					
9					
10					
11					
12					
13					
14					
15	GROUP AVERAGE				8.85%
16	GROUP MEDIAN				8.13%
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					

<sup>1</sup> Data as of April 16, 2009

<sup>2</sup> Where no data available, average of other utilities assumed to estimate for utility.

Coronado Utilities, Inc.  
Current Dividend Yields for Water Utility Sample Group

Line No.	Company	Current Stock Price (P <sub>0</sub> ) <sup>1</sup>	Current Dividend (D <sub>0</sub> ) <sup>1</sup>	Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1</sup>	Average Annual Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1,2</sup>
1	1. American States	\$ 33.40	\$ 1.00	2.99%	2.86%
2	2. Aqua America	\$ 18.88	\$ 0.51	2.70%	2.80%
3	3. California Water	\$ 36.46	\$ 1.17	3.21%	3.12%
4	4. Connecticut Water	\$ 20.17	\$ 0.88	4.36%	3.58%
5	5. Middlesex	\$ 14.21	\$ 0.70	4.93%	3.98%
6	6. SJW Corp.	\$ 24.53	\$ 0.65	2.65%	2.27%
7					
8					
9					
10					
11					
12					
13	Average			3.47%	3.10%
14	Median			3.10%	2.99%
15					

<sup>1</sup> Value Line Analyzer Data. Stock prices as of April 16, 2009.

<sup>2</sup> Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.



**Coronado Utilities, Inc.  
Market Betas**

**Exhibit  
Schedule D-4.9**

Line  
No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

<u>Company</u>	<u>Beta (β)<sup>1</sup></u>
1. American States	0.85
2. Aqua America	0.75
3. California Water	0.85
4. Connecticut Water	0.80
5. Middlesex	0.80
6. SJW Corp.	1.00
<b>Average</b>	<b>0.84</b>

<sup>1</sup> Value Line Investment Analyzer data (April 16, 2009)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percentage changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Coronado Utilities, Inc.**  
**Forecasts of Long-Term Interest Rates**  
**2010-2011**

**Exhibit**  
**Schedule D-4.10**

Line No.	Description	2010	2011	Average
1				
2				
3				
4				
5				
6	Blue Chip Consensus Forecasts <sup>1</sup>	4.7%	5.1%	4.9%
7				
8	Value Line <sup>2</sup>	3.7%	4.8%	4.3%
9				
10	Average			4.6%
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				

<sup>1</sup> December 2008 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

<sup>2</sup> Value Line Quarterly forecast, dated February 20, 2009 20 year U.S. Treasury

Exhibit  
Schedule D-4.11

Coronado Utilities, Inc.  
Computation of Current Market Risk Premium

Line No.	Month	Dividend Yield (D <sub>t</sub> /P <sub>t</sub> ) <sup>1</sup>	Expected Dividend Yield (D <sub>t</sub> /P <sub>t</sub> ) <sup>2</sup>	Expected Growth (g) <sup>3</sup>	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate <sup>4</sup>	Market Risk Premium (MRP)
1							
2							
3	Aug 2006	2.20%	2.20%	+ 11.88%	= 13.88%	= 5.00%	= 8.88%
4	Sept	2.20%	2.20%	+ 11.34%	= 13.54%	= 4.85%	= 8.69%
5	Oct	2.15%	2.15%	+ 9.75%	= 11.90%	= 4.85%	= 7.05%
6	Nov	2.10%	2.10%	+ 9.72%	= 11.82%	= 4.68%	= 7.13%
7	Dec 2006	2.08%	2.08%	+ 9.41%	= 11.50%	= 4.68%	= 6.82%
8	Jan 2007	2.05%	2.05%	+ 9.57%	= 11.62%	= 4.85%	= 7.75%
9	Feb	2.10%	2.10%	+ 10.47%	= 12.57%	= 4.82%	= 7.75%
10	March	2.10%	2.10%	+ 10.07%	= 12.17%	= 4.72%	= 7.45%
11	April	2.09%	2.09%	+ 9.29%	= 11.38%	= 4.87%	= 6.51%
12	May	2.08%	2.08%	+ 9.15%	= 11.23%	= 4.90%	= 6.33%
13	Jun	2.17%	2.17%	+ 8.71%	= 11.88%	= 5.20%	= 6.68%
14	Jul	2.27%	2.27%	+ 10.91%	= 13.18%	= 5.11%	= 8.07%
15	Aug	2.37%	2.37%	+ 11.92%	= 14.29%	= 4.93%	= 9.36%
16	Sept	2.31%	2.31%	+ 11.16%	= 13.47%	= 4.79%	= 8.68%
17	Oct	2.45%	2.45%	+ 11.80%	= 14.35%	= 4.77%	= 9.58%
18	Nov	2.60%	2.60%	+ 13.41%	= 16.01%	= 4.52%	= 11.49%
19	Dec 2007	2.61%	2.61%	+ 13.51%	= 16.12%	= 4.52%	= 11.60%
20	Jan 2008	2.67%	2.67%	+ 15.18%	= 17.86%	= 4.33%	= 13.53%
21	Feb	2.74%	2.74%	+ 16.47%	= 19.86%	= 4.52%	= 16.14%
22	Mar	2.85%	3.35%	+ 17.64%	= 20.99%	= 4.39%	= 16.60%
23	Apr	2.89%	3.11%	+ 15.73%	= 18.84%	= 4.44%	= 14.40%
24	May	2.73%	3.15%	+ 15.51%	= 18.66%	= 4.60%	= 14.06%
25	Jun	3.13%	3.71%	+ 18.51%	= 22.22%	= 4.69%	= 17.53%
26	Jul	3.15%	3.74%	+ 18.61%	= 22.35%	= 4.57%	= 17.78%
27	Aug	3.06%	3.59%	+ 17.08%	= 20.87%	= 4.50%	= 16.17%
28	Sept	3.07%	3.66%	+ 19.30%	= 22.86%	= 4.27%	= 18.69%
29	Oct	4.31%	5.63%	+ 30.53%	= 36.16%	= 4.17%	= 31.99%
30	Nov	4.97%	6.71%	+ 35.02%	= 41.73%	= 4.00%	= 37.73%
31	Dec 2008	4.44%	5.76%	+ 29.62%	= 35.38%	= 2.87%	= 32.51%
32	Jan 2009	4.86%	6.32%	+ 30.02%	= 36.34%	= 3.13%	= 33.21%
33	Feb	5.50%	7.43%	+ 35.13%	= 42.56%	= 3.59%	= 38.97%
34	Mar	4.21%	5.36%	+ 27.33%	= 32.69%	= 3.64%	= 29.05%
35	Recent 24 Mon Avg	3.14%	3.68%	+ 18.44%	= 22.12%	= 4.39%	= 17.74%
36	Short-term Trends						
37	Recent Twelve Months Avg	3.84%	4.85%	+ 24.37%	= 29.21%	= 4.04%	= 25.17%
38	Recent Nine Months Avg	4.17%	5.35%	+ 26.96%	= 32.31%	= 3.86%	= 28.45%
39	Recent Six Months Avg	4.72%	6.20%	+ 31.28%	= 37.48%	= 3.57%	= 33.91%
40	Recent Three Months Avg	4.86%	6.37%	+ 30.83%	= 37.20%	= 3.45%	= 33.74%

<sup>1</sup> Average Current Dividend Yield (D<sub>t</sub>/P<sub>t</sub>) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>2</sup> Expected Dividend Yield (D<sub>t</sub>/P<sub>t</sub>) equals average current dividend yield (D<sub>t</sub>/P<sub>t</sub>) times one plus growth rate(g).

<sup>3</sup> Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

<sup>4</sup> Monthly average 30 year U.S. Treasury. Federal Reserve.



**Coronado Utilities, Inc.**  
**Capital Asset Pricing Model (CAPM)**

**Exhibit**  
**Schedule D-4.12**

Line No.	Rf <sup>1</sup>	+	beta <sup>3</sup>	x	Rp	=	k
1							
2							
3	4.6%	+	0.84	x	6.5%	=	10.1%
4							
5	4.6%	+	0.84	x	17.7%	=	19.5%
6							
7							
8							14.8%
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							

<sup>1</sup> Forecasts of long-term treasury yields. See Schedule D-4.10.

<sup>2</sup> Value Line Investment Analyzer data. See Schedule D.4.9.

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar S&P 500 2009 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

Coronado Utilities, Inc.  
Financial Risk Computation

Exhibit  
Schedule D-4.13

Line

<u>CAPM</u>	<u>Rf</u>	<u>+</u>	<u><math>\beta</math></u>	<u>x</u>	<u>(Rp)</u>	<u>=</u>	<u>k</u>
Historical Market Risk Premium	4.6% <sup>1</sup>	+	0.84 <sup>2</sup>	x	6.5% <sup>3</sup>	=	10.1%
Current Market Risk Premium	4.6% <sup>1</sup>	+	0.84 <sup>2</sup>	x	17.7% <sup>4</sup>	=	19.5%
Average							14.8%
<u>CAPM Leveraged Beta</u>	<u>Rf</u>	<u>+</u>	<u><math>\beta</math></u>	<u>x</u>	<u>(Rp)</u>	<u>=</u>	<u>k</u>
Historical Market Risk Premium	4.6% <sup>1</sup>	+	1.13 <sup>5</sup>	x	6.5% <sup>3</sup>	=	11.9%
Current Market Risk Premium	4.6% <sup>1</sup>	+	1.13 <sup>5</sup>	x	17.7% <sup>4</sup>	=	24.6%
Average							18.3%
Financial Risk Adjustment							<u>3.5%</u>

<sup>1</sup> Forecast of long-term treasury yields. See Table 15.

<sup>2</sup> Value Line Investment Analyzer data. See Table 13.

<sup>3</sup> Historical Market Risk Premium from (Rp) MorningStar SBBI 2009 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2008

<sup>4</sup> Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Table 14.

<sup>5</sup> Leveraged beta found on Table 19.

**Coronado Utilities, Inc.**  
**Financial Risk Computation**  
**Unlevered Beta**

**Exhibit**  
**Schedule D-4.14**

Line No.	Company	VL Beta $\beta_L^1$	Raw Beta $\beta_{Raw}^2$	Tax Rate $t^3$	MV Debt $D^4$	MV Equity $E^4$	Unlevered Raw Beta $\beta_{UL}^5$
1							
2							
3							
4							
5	1. American States	0.85	0.78	37.8%	31.6%	68.4%	0.61
6	2. Aqua America	0.75	0.63	39.7%	32.8%	67.2%	0.49
7	3. California Water	0.85	0.78	37.7%	27.6%	72.4%	0.63
8	4. Connecticut Water	0.80	0.70	27.2%	35.0%	65.0%	0.50
9	5. Middlesex	0.80	0.70	33.2%	38.3%	61.7%	0.49
10	6. SJW Corp.	1.00	1.00	38.1%	32.7%	67.3%	0.77
11							
12							
13	Sample Water Utilities	0.84	0.77	35.6%	33.0%	67.0%	0.58
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							

<sup>1</sup> Value Line Investment Analyzer data. See Table 13.

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta =  $.33 + (.67) * \text{Raw beta}$

<sup>2</sup> Raw Beta =  $(VL \text{ beta} - .33) / (.67)$

<sup>3</sup> Effective tax rates for year ended December 31, 2008.

<sup>4</sup> See Table 3.

<sup>5</sup> Raw  $\beta_L = \text{Raw } \beta_L / (1 + (1-t)*D/E)$

Exhibit  
Schedule D-4.15

Coronado Utilities, Inc.  
Financial Risk Computation  
Relevered Beta

Line No.	Unlevered Raw Beta $\beta_U^1$	MV Book Debt $\frac{BD^2}{EC^2}$	MV Equity Capital $\frac{EC^2}{EC^2}$	Tax Rate $t^3$	Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$	VL Adjusted Relevered Beta $\beta_{RAL} = .33 + .67(Raw Beta)$
1						
2						
3						
4						
5	Coronado Utilities, Inc.	63.4%	36.6%	38.90%	1.19	1.13
6						
7						
8						
9						
10						
11						
12						

<sup>1</sup> Unlevered Beta from Table 18.

<sup>2</sup> Capital Structure of Company (As of December 31, 2008)

	BV (in Millions)	MV (in Millions)	%
Long-term Debt	\$ 2,575	\$ 2,575	63.4%
Preferred Stock	570	570	14.0%
Common Stock	504	919	22.6%
Total Capital	\$ 3,649	\$ 4,064	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

<sup>3</sup> Current Tax rate based on test year ending 2008. See Schedule D-1.

Line No.		Beta (B)	Size Premium	Risk Premium for Small Water Utilities <sup>7</sup>
1				
2				
3				
4				
5				
6	Mid-Cap Companies <sup>2</sup>	1.12	0.90%	
7				
8	Low-Cap Companies <sup>3</sup>	1.25	1.56%	
9				
10	Micro-Cap Companies <sup>4</sup>	1.50	2.83%	
11				
12	Decile 10 <sup>5</sup>	1.62	4.43%	1.81%
13				
14				
15				
16				
17				
18				
19				
20	Estimated Risk Premium for small water utilities <sup>6</sup>			0.99%
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43				

Estimated Risk Premium for small water utilities<sup>6</sup>

<sup>1</sup> Data from Table 7-11 of Morningstar, Ibbotson S&P 2009 Valuation Yearbook.

<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$1,850 million and \$7,360 million.

<sup>3</sup> Low-Cap companies includes companies with market capitalization between \$454 million and \$1,849 million.

<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$453 million.

<sup>5</sup> Decile 10 includes companies with market capitalization between \$1.6 million and \$219 million.

<sup>6</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

<sup>7</sup> Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap.	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1. American States	578 Low-Cap	1.56%	2.87%	0.16666667	0.48%
2. Aqua America	2,556 Mid-Cap	0.90%	3.53%	0.18888889	0.59%
3. California Water	755 Low-Cap	1.56%	2.87%	0.16666667	0.48%
4. Connecticut Water	171 Decile 10	4.43%	0.00%	0.15555556	0.00%
5. Middlesex	190 Decile 10	4.43%	0.00%	0.16666667	0.00%
6. SJW Corp.	446 Micro-Cap	2.83%	1.60%	0.16666667	0.27%
Weighted Size Premium for small companies					1.81%

# **ATTACHMENT 1**

